

PURE CYCLE CORP  
Form 10-K  
November 09, 2015

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

Form 10-K

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

For the fiscal year ended August 31, 2015

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

Commission File Number 0-8814

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

PURE CYCLE CORPORATION  
(Exact name of registrant as specified in its charter)

Colorado 84-0705083  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

34501 E. Quincy Ave., Bldg. 34, Box 10  
Watkins, CO 80137 (303) 292-3456  
(Address of principal executive offices) (Zip Code) (Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$86,018,020

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: November 2, 2015: 23,754,098

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference from the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held in January 2016, which will be filed with the SEC within 120 days of the close of the fiscal year ended August 31, 2015.

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## FORWARD LOOKING STATEMENTS

Statements that are not historical facts contained in this Annual Report on Form 10-K, or incorporated by reference into this Form 10-K, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words "anticipate," "seek," "project," "future," "likely," "believe," "may," "should," "could," "will," "estimate," "expect," "plan," "intend" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Forward-looking statements include statements relating to, among other things:

- factors affecting demand for water;
- our competitive advantage;
- plans to develop additional water assets within the Denver area;
  - future water supply needs in Colorado and how such needs will be met;
- anticipated increases in residential and commercial demand for water services and competition for these services;
- estimated population increases in the Denver metropolitan area and the South Platte River basin;
- plans for the use and development of our water assets and potential delays;
- plans to provide water for drilling and hydraulic fracturing of oil and gas wells;
- changes in oil and gas drilling activity on our property and on the Lowry Range;
- regional cooperation among area water providers in the development of new water supplies and water storage, transmission and distribution systems as the most cost-effective way to expand and enhance service capacities;
- the impact of individual housing and economic cycles on the number of connections we can serve with our water;
- increases in future water tap fees;
- negotiation of payment terms for fees;
- plans for development of our Sky Ranch property;
- anticipated revenues from full development of our Sky Ranch property;
- the impact of the downturn in the homebuilding and credit markets on our business and financial condition;
- the sufficiency of our working capital and financing sources to fund our operations;
- estimated supply capacity of our water assets;
- need for additional production capacity;
- use of raw and reclaimed water for outdoor irrigation;
- costs to treat contaminated water;
- participation in regional water projects, including "WISE";
- our ability to assist Colorado "Front Range" water providers in meeting current and future water needs;
- timing of and interpretation of Land Board royalties;
- the number of new water connections needed to recover the costs of our Rangeview and Sky Ranch water supplies;
- the adequacy of the provisions in the "Lease" for the Lowry Range to cover present and future circumstances;
- plans for office space;
- factors that may impact labor and material costs;
- loss of key employees and hiring additional personnel for our operations;
- anticipated timing and amount of, and sources of funding for (i) capital expenditures to construct infrastructure and increase production capacities, (ii) compliance with water, environmental and other regulations, and (iii) operations including delivery and treatment of water and wastewater;
- the ability of our deep water well enhancement tool and process to increase efficiency of wells and our plans to market that product to area water providers;
- our ability to reduce the amount of up-front construction costs for water and wastewater systems;
- ability to generate working capital and market our water assets;
- plans to discontinue our farm operations;



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- plans to sell certain farms acquired to correct certain dry-up covenant issues;
- service life of constructed facilities;
- use of third parties to construct facilities required to extend water and wastewater services;
- payment of amounts due from Sky Ranch Metropolitan District #5;
- payment of amounts due from Rangeview Metropolitan District;
- estimated property taxes;
- utilization of net operating losses;
- capital expenditures for investing in expenses and assets of the District;
- the impact of water quality, solid waste disposal and environmental regulations on our financial condition and results of operations;
- environmental clean-up at the Lowry Range by the U.S. Army Corps of Engineers;
- our ability to comply with permit requirements and environmental regulations and the cost of such compliance;
- our ability to meet customer demands in a sustainable and environmentally friendly way;
- the recoverability of construction and acquisition costs from rates;
- our belief that we are not a public utility under Colorado law;
- our belief that we are not an investment company under the Investment Company Act of 1940, as amended;
- impairments in carrying amounts of long-lived assets;
- changes in unrecognized tax positions;
- plans to retain earnings and not pay dividends;
- forfeitures of option grants, vesting of non-vested options and the fair value of option awards;
- the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting;
- accounting estimates and the impact of new accounting pronouncements;
- future fluctuations in the price and trading volume of our common stock; and
- timing of the filing of our proxy statement.

Forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. We cannot assure you that any of our expectations will be realized. Our actual results could differ materially from those in such statements. Factors that could cause actual results to differ from those contemplated by such forward-looking statements include, without limitation:

- the timing of new home construction and other development in the areas where we may sell our water, which in turn may be impacted by credit availability;
- population growth;
- employment rates;
- timing of oil and gas development in the areas where we sell our water;
- general economic conditions;
- the market price of water;
- the market price of oil and gas;
- the market price of alfalfa and other crops grown on our farms subject to crop share leases;
- changes in customer consumption patterns;
- changes in applicable statutory and regulatory requirements;
- changes in governmental policies and procedures;
- changes in interest rates;
- uncertainties in the estimation of water available under decrees;
- uncertainties in the estimation of costs of delivery of water and treatment of wastewater;
- uncertainties in the estimation of the service life of our systems;
- uncertainties in the estimation of costs of construction projects;
- the strength and financial resources of our competitors;
- our ability to find and retain skilled personnel;
- climatic and weather conditions, including floods, droughts and freezing conditions;
- labor relations;





- turnover of elected and appointed officials and delays caused by political concerns and government procedures;
- availability and cost of labor, material and equipment;
- delays in anticipated permit and construction dates;
- engineering and geological problems;
- environmental risks and regulations;
- our ability to raise capital;
- our ability to negotiate contracts with new customers;
- uncertainties in water court rulings; and
- the factors described under "Risk Factors" in this Annual Report on Form 10 K.

We undertake no obligation, and disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements are expressly qualified by this cautionary statement.

## PART I

### Item 1 – Business

Pure Cycle Corporation ("we," "us" or "our") is a Colorado corporation that provides wholesale water and wastewater services. The wholesale water and wastewater services may include, but are not limited to, water production, storage, treatment, bulk transmission to retail distribution systems, wastewater collection and treatment, irrigation water treatment and transmission, construction management, billing and collection, and emergency response. We provide these services to our wholesale customers, which are typically industrial customers and local governmental entities that provide water and wastewater services to their end-use customers located in the greater Denver, Colorado metropolitan area.

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

We currently provide wholesale water service predominantly to two local governmental entity customers. Our largest customer is the Rangeview Metropolitan District (the "District"), a quasi-municipal political subdivision of the State of Colorado which is described further below. We provide service to the District and its end-use customers pursuant to "The Rangeview Water Agreements" (defined below) between us and the District for the provision of wholesale water service to the District for use in the District's service area. Through the District, we provide wholesale service to 258 Single Family Equivalent ("SFE") (as defined below) water connections and 157 SFE wastewater connections located in southeastern metropolitan Denver. In the past three years, we have been providing water to industrial customers in our service areas and adjacent to our service areas to the oil and gas industry for the purpose of hydraulic fracturing. Oil and gas operators have leased more than 135,000 acres within and adjacent to our service areas for the purpose of exploring oil and gas interests in the Niobrara and other formations and this activity has led to increased water demands.

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

next 30 years.

Until August 18, 2015, we owned farm land consisting of approximately 14,600 acres of irrigated land that was leased to local farmers in southeastern Colorado. On August 18, 2015, we and our wholly owned subsidiary, PCY

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Holdings, LLC, a Colorado limited liability company ("PCY Holdings"), sold approximately 14,600 acres of real property located in Bent, Otero and Prowers Counties, Colorado, and related water rights to Arkansas River Farms, LLC ("Arkansas River Farms"), a newly formed Colorado limited liability company and affiliate of C&A Companies, Inc., a Colorado corporation, and Resource Land Holdings, LLC, a Colorado limited liability company, for approximately \$45.8 million in cash, for a loss of approximately \$22.1 million. As of August 31, 2015, approximately \$1.3 million of the closing consideration remained in escrow pending resolution by the parties of certain outstanding items. In addition, we own 931 acres of land in the I-70 corridor east of Denver, Colorado, that is being held for development. These land interests are described in the Our Water and Land Assets section below.

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

### Glossary of terms

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

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

**Customer Facilities** – facilities that carry potable water and reclaimed water to customers from the retail water distribution system (see "Retail Facilities" below) and collect wastewater from customers and transfer it to the retail wastewater collection system. Water and wastewater service lines, interior plumbing, meters and other components are typical examples of Customer Facilities. In many cases, portions of the Customer Facilities are constructed by the developer, but they are owned and maintained by the customer.

**Non-Tributary Groundwater** – underground water in an aquifer which is situated so it neither draws from nor contributes to a natural surface stream in any measurable degree.

**Not Non-Tributary Groundwater** – statutorily defined as groundwater located within those portions of the Dawson, Denver, Arapahoe, and Laramie-Fox hills aquifers that are outside of any designated groundwater basin in existence on January 1, 1985.

**Retail Facilities** – facilities that distribute water to and collect wastewater from an individual subdivision or community. Developers are typically responsible for the funding and construction of Retail Facilities. Once we certify that the Retail Facilities have been constructed in accordance with our design criteria, the developer dedicates the Retail Facilities to us or to a quasi-municipal political subdivision of the state and we operate and maintain the facilities.

**Section** – a parcel of land equal to one square mile and containing 640 acres.

**Single Family Equivalent unit ("SFE")** – One SFE is a customer – whether residential, commercial or industrial – that imparts a demand on our water or wastewater systems similar to the demand of a family of four persons living in a single family house on a standard sized lot. One SFE is assumed to have a water demand of approximately 0.4 acre feet per year and to contribute wastewater flows of approximately 300 gallons per day.

**Special Facilities** – facilities that are required to extend services to an individual development and are not otherwise classified as a typical "Wholesale Facility" or "Retail Facility." Temporary infrastructure required prior to construction of permanent water and wastewater systems or transmission pipelines to transfer water from one location to another are examples of Special Facilities. We typically design and construct the Special Facilities using funds provided by the developer in addition to the normal rates, fees and charges that we collect from our customers. We are typically responsible for the operation and maintenance of the Special Facilities upon completion.

Tributary Groundwater – all water located in an aquifer that is hydrologically connected to a natural stream and is not considered non-tributary or not non-tributary.

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·Tributary Surface Water – water on the surface of the ground flowing in a stream or river system.

Wholesale Facilities – facilities that serve an entire service area or major regions or portions thereof. Wells, treatment plants, pump stations, tanks, reservoirs, transmission pipelines, and major sewage lift stations are typical examples of Wholesale Facilities. We own, design, construct, operate, maintain and repair Wholesale Facilities which are typically funded using rates, fees and charges that we collect from our customers.

Our Water and Land Assets

This section should be read in conjunction with Item 1A – Risk Factors, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates, and Note 4 – Water and Land Assets and Note 13 – Segment Reporting to the accompanying financial statements.

The \$27.7 million of capitalized water costs on our balance sheet represents the costs of the water rights we own and the related infrastructure developed to provide wholesale water and wastewater services. Our water assets are as follows:

	acre	SFE (0.4 acre feet)
Water Source	feet	feet)
Lowry (Rangeview Water Supply)		
Export	11,650	29,125
Non-Export	8,827	22,068
Surface Water	3,300	8,250
WISE	500	1,250
Fairgrounds	320	800
Sky Ranch	828	2,069
	25,425	63,562

Each of these assets is explained in detail below.

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

#### Rangeview Water Supply and the Lowry Range

Our Rangeview Water – We own or control a total of approximately 3,300 acre feet of tributary surface water, 20,450 acre feet of non-tributary and not non-tributary groundwater rights, and approximately 26,000 acre feet of adjudicated reservoir sites that we refer to as our "Rangeview Water Supply." This water is located in the southeast Denver metropolitan area at the "Lowry Range," which is owned by the State Board of Land Commissioners (the "Land Board") and is described below.

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

The 1996 Amended and Restated Lease Agreement between the Land Board and the District which was superseded (i) by the 2014 Amended and Restated Lease Agreement, dated July 10, 2014 (the "Lease"), among the Land Board, the District, and us;

The Agreement for Sale of non-tributary and not non-tributary groundwater which we can "export" from the (ii) Lowry Range to supply water to nearby communities (this portion of the Rangeview Water Supply is referred to as our "Export Water") between us and the District (the "Export Agreement"); and

The 1996 Service Agreement between us and the District for the provision of water service to the District's (iii) customers, which was superseded by the Amended and Restated Service Agreement, dated July 11, 2014 (the "Service Agreement"), between us and the District.

Additionally, in 1997 we entered into a Wastewater Service Agreement (the "Wastewater Agreement") with the District to provide wastewater service to the District's customers.

The Lease, the Export Agreement, the Service Agreement, and the Wastewater Agreement are collectively referred to as the "Rangeview Water Agreements."

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

Of the approximately 20,450 acre feet of Lowry Range groundwater, we own 11,650 acre feet of Export Water. We also have the right to convert up to 1,650 acre feet of the Export groundwater to a similar amount of surface water for use off the Lowry Range. We hold the exclusive right to develop and deliver through the year 2081 the remaining 8,800 acre feet of groundwater and approximately 3,300 acre feet of average yield surface water to customers either on or off of the Lowry Range. The combined approximately 23,800 acre feet can serve approximately 59,400 SFEs based on the average use of 0.4 acre feet per SFE.

The Lowry Range Property – The Lowry Range is located in unincorporated Arapahoe County, about 20 miles southeast of downtown Denver. The Lowry Range is one of the largest contiguous parcels under single ownership next to a major metropolitan area in the United States. The Lowry Range is approximately 27,000 acres in size or about 40 square miles of land. Of the 27,000 acres, pursuant to our agreements with the Land Board and the District, we have the exclusive rights to provide water and wastewater services to approximately 24,000 acres of the Lowry Range.

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 and other approved areas. The District is governed by an elected board of directors. Eligible voters and persons eligible to serve as directors of the District must own an interest in property within the boundaries of the District. We own certain rights and real property interests which encompass the current boundaries of the District. The current directors of the District are Mark W. Harding and Scott E. Lehman (both employees of Pure Cycle), and two independent board members. Pursuant to Colorado law, directors may receive \$100 for each board meeting they attend, up to a maximum of \$1,600 per year. Mr. Harding and Mr. Lehman have both elected to forego these payments.

South Metropolitan Water Supply Authority and WISE – The South Metropolitan Water Supply Authority ("SMWSA") is a municipal water authority in the State of Colorado organized to pursue the acquisition and development of new water supplies on behalf of its members. SMWSA members include 14 Denver area water providers in Arapahoe and Douglas Counties. The District became a member of SMWSA in 2009 in an effort to participate with other area water providers in developing regional water supplies along the Front Range. We entered into a Participation Agreement with the District on December 16, 2009, whereby we agreed to provide funding to the District in connection with its membership in the SMWSA (the "SMWSA Participation Agreement"). During the fiscal years ended August 31, 2015 and 2014, we provided \$78,700 and \$70,800, respectively, of funding to the District pursuant to the SMWSA Participation Agreement. For over three years, the SMWSA members have been working with the City and County of Denver acting through its Board of Water Commissioners ("Denver Water") and the City of Aurora acting by and through its Utility Enterprise ("Aurora Water") on a cooperative water project known as the Water Infrastructure



Supply Efficiency partnership ("WISE"), which seeks to develop regional infrastructure that would interconnect members' water transmission systems to be able to develop additional water supplies from the South Platte River in conjunction with Denver Water and Aurora Water. In July 2013, the District together with nine other SMWSA members formed the South Metro WISE Authority ("SMWA") pursuant to the South Metro WISE Authority Formation and Organizational Intergovernmental Agreement (the "SM IGA") to enable its members to participate in WISE. The SM IGA specifies each member's pro rata share of WISE and the members' rights and obligations with respect to WISE. On December 31, 2013, SMWA, Denver Water and Aurora Water entered into the Amended and Restated WISE Partnership – Water Delivery Agreement (the "WISE Partnership Agreement"), which provides for the purchase and construction of certain infrastructure (pipelines, water storage facilities, water treatment facilities, and other appurtenant facilities) to deliver water to and among the 10 members of the SMWA, Denver Water and Aurora Water. We have entered into the Rangeview/Pure Cycle WISE Project Financing Agreement with the District dated November 19, 2014 (effective as of December 22, 2014), which obligates us to fund the District's cost of participating in WISE (the "WISE Financing Agreement"). During the fiscal year ended August 31, 2015, we made payments of \$1,156,800 to fund the District's purchase of certain rights to use existing water transmission and related infrastructure acquired by WISE. We anticipate that we will be investing approximately \$1.2 million per year during each of the next five years to fund the District's purchase of its share of the water transmission line and additional facilities, water and related assets for WISE. In accordance with the WISE Financing Agreement, we also funded the District's obligations to repay approximately \$1.4 million borrowed by the District from certain SMWA members to finance the purchase of infrastructure for WISE. In exchange for funding the District's obligations in WISE, we will have the sole right to use and reuse the District's 7% share of the WISE water and infrastructure to provide water service to the District's customers and to receive the revenue from such service. Upon completion in 2021, we expect to be entitled to approximately three million gallons per day of transmission pipeline capacity and 500 acre feet per year of water.

East Cherry Creek Valley System – Pursuant to a 1982 contractual right, the District may purchase water produced from East Cherry Creek Valley Water and Sanitation District's ("ECCV") Land Board system. ECCV's Land Board system is comprised of eight wells and more than 10 miles of buried water pipeline located on the Lowry Range. In May 2012, in order to increase the delivery capacity and reliability of these wells, in our capacity as the District's service provider and the Export Water Contractor (as defined in the Lease among us, the District and the Land Board), we entered into an agreement to operate and maintain the ECCV facilities allowing us to utilize the system to provide water to commercial and industrial customers, including customers providing water for drilling and hydraulic fracturing of oil and gas wells. Our costs associated with the use of the ECCV system are a flat monthly fee of \$8,000 per month from January 1, 2013 through December 31, 2020, and will decrease to \$3,000 per month from January 1, 2021 through April 2032. Additionally, we pay a fee per 1,000 gallons of water produced from ECCV's system, which is included in the water usage fees charged to customers.

Hydraulic Fracturing – Water revenues from sales of drilling and fracking water for wells drilled into the Niobrara Formation were approximately \$782,700 and \$1.7 million during the fiscal years ended August 31, 2015 and 2014, respectively. With a large percentage of the acreage surrounding the Lowry Range in Arapahoe, Adams, Elbert, and portions of Douglas Counties already leased by major oil companies, we anticipate providing additional water for drilling and hydraulic fracturing ("fracking") of oil and gas wells in the future. Through March 2015, we sold water directly to ConocoPhillips Company ("ConocoPhillips"), the largest oil and gas lease holder operating in the area, and indirectly to ConocoPhillips through Select Energy Services, LLC ("Select").

In order to service this demand, we have significantly increased the capacity of our system over the previous two fiscal years. During the fiscal year ended August 31, 2013, we rehabilitated five of our ECCV wells, and we added approximately 2,500 feet of 8" buried line so that we can deliver water directly to the industry both on and off of the Lowry Range. During the fiscal year ended August 31, 2014, we drilled one well on the Lowry Range and two wells on our Sky Ranch property, which added approximately 0.5 million gallons of water per day to our system. Additionally, during the fiscal year ended August 31, 2014, we rehabilitated an additional ECCV well and we constructed a 400,000-barrel storage reservoir at our Sky Ranch property. During the fiscal year ended August 31, 2015, we added approximately one and half miles of 16" buried line on our Sky Ranch property for future water deliveries to industrial and wholesale customers. Collectively our system capacity has been increased to approximately 1.2 million gallons per day. At present there are no drilling rigs working the area. Historically, when drill rigs were working the area, one well was drilled and fracked approximately every four weeks. The amount of water used for each fracked well ranges between 7 and 12 million gallons. During fiscal 2015 and 2014, we sold approximately 222.7 acre feet and 504.8 acre feet, respectively. Monthly water deliveries to the industry are detailed

in the following chart. As a result of the recent decline in oil prices, drilling has been significantly reduced, and as of the date of this report, we are not selling water to the oil and gas industry. We sold water through March 2015 as detailed in the following graph:

**Land Board Royalties** – Pursuant to the Rangeview Water Agreements, the Land Board is entitled to royalty payments based on a percentage of revenues earned from water sales that utilize water from the Rangeview Water Supply. The calculation of royalties depends on the water source and whether the customer is a public or private entity. Royalties were modified in July 2014 pursuant to the terms of the Lease. The Land Board does not receive a royalty from wastewater services.

**Water Customers** – When we develop, operate and deliver water service, payments from customers generate royalties to the Land Board at a rate of 12% of gross revenues from private customers and 10% from public entity customers. In the event that either (i) metered production of water used on the Lowry Range in any calendar year exceeds 13,000 acre feet or (ii) 10,000 surface acres on the Lowry Range have been rezoned to non-agricultural use, finally platted and water tap agreements have been entered into with respect to all improvements to be constructed on such acreage, the Land Board may elect, at its option, to receive, in lieu of its royalty of 10% or 12% of gross revenues (depending on whether the customer is public or private), 50% of the collective net profits (ours and the District's) derived from the sale or other disposition of water on the Lowry Range. To date neither of these conditions has been met and such conditions are not likely to be met any time soon. In addition to royalties on the sale of metered water deliveries, the Land Board will receive a royalty on the sale of water taps at the rate of 2%, except for the sale of any taps to Sky Ranch, of the gross amount received from the sale of a water tap.

**Sale of Water Rights** – In the event we sell our Export Water right outright rather than developing and delivering water service, royalties to the Land Board escalate based on the amount of gross revenue we receive and are lower for sales to a water district or similar municipal or public entity than for sales to a private entity as noted in Table A.

Table A - Royalties for Sale of Export Water Rights

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

We are also required to pay the Land Board a minimum annual water production fee, which is currently under negotiation, but estimated to be no more than \$140,000 per year, which is to be credited against future royalties.

#### Arkansas River Water and Land

Until August 18, 2015, we owned approximately 51,000 acre feet of surface water rights in the Arkansas River together with approximately 14,600 acres of farm land in southeastern Colorado. On August 18, 2015, we and our wholly owned subsidiary, PCY Holdings, sold the 14,600 acres of real property located in Bent, Otero, and Prowers Counties, Colorado, and the related water rights to Arkansas River Farms for approximately \$45.8 million in cash. Pursuant to the terms of the purchase and sale agreement, we continue to receive income and pay expenses relating to our farm leases through December 31, 2015. The water rights we owned were represented by 18,448.44 shares of the Fort Lyon Canal Company (the "FLCC"), which is a non-profit mutual ditch company established in the late 1800s to operate and maintain the 110-mile long Fort Lyon Canal between La Junta and Lamar, Colorado. We acquired our Arkansas River water and land from High Plains A&M, LLC ("HP A&M"), pursuant to an Asset Purchase Agreement dated May 10, 2006 (the "Arkansas River Agreement").

Prior to the sale of the farm land and associated water rights, we leased the land and water we owned to area farmers who irrigate the land for agricultural purposes on both a cash and crop share lease basis. For additional information concerning our rights and obligations under the Arkansas River Agreement, see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates – Fair Value Estimates – Farm Accounts Receivable and Future Farm Income.

Agricultural Operations and Leasing – Since September 1, 2012, we have been tracking and reporting our farm operations as a separate business segment. Based on acreage, during fiscal 2015 approximately 78% of our farm operations were managed through cash lease arrangements with local area farmers, whereby we charge a fixed fee, billed semi-annually in March and November, to lease our land and water rights for agricultural purposes. Based on acreage, approximately 22% of our farm operations were managed through crop share leases, pursuant to which we and the tenant farmer jointly share in the gross revenues generated from the crops grown under a 75% farmer, 25% landlord participation. The majority of crops grown on our farms are alfalfa, with a number of acres also planted in corn, sorghum, and wheat. For additional information regarding this segment's revenues, gross profits and assets, see Note 13 – Segment Reporting to the accompanying financial statements.

Tap Participation Fee – As further described in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates below and Note 7 – Long-Term Debt and Operating Lease to the accompanying financial statements, we agreed to pay HP A&M 10% of the tap fees we received from the next 40,000 water taps we sold from and after the original date of the Arkansas River Agreement.

This is referred to as the "Tap Participation Fee" or "TPF." The TPF was payable when we sold water taps and received funds from such water tap sales or other dispositions of property purchased in the HP A&M acquisition.

Approximately 60 of the 80 farms and the related water rights acquired from HP A&M were subject to deeds of trust to secure payment of promissory notes owed by HP A&M to third parties. Beginning in June of 2012, HP A&M began defaulting on the promissory notes owed to third parties resulting in a default under the Arkansas River Agreement and related agreements. In order to protect our assets, we began acquiring the promissory notes payable by HP A&M in exchange for a combination of cash and promissory notes. See Note 7 – Long-Term Debt and Operating Lease – Promissory Notes Payable by HP A&M in Default to the accompanying financial statements. We recorded a receivable from HP A&M for the amounts due under the defaulted notes. See Note 3 – Summary of Significant Accounting Policies – HP A&M Receivable to the accompanying financial statements.

During the past several years, we were party to numerous lawsuits with HP A&M relating to defaults by HP A&M under the Arkansas River Agreement. These lawsuits related to, among other things, our right to recover on the defaulted notes and to offset the TPF payable based on the defaults. In January 2015, we reached a settlement with HP A&M, whereby, among other things, HP A&M relinquished all claims to the TPF and we relinquished all claims to collect on the HP A&M defaulted notes. As a result, the TPF payable and the HP A&M receivable were eliminated, which is reflected on the August 31, 2015 consolidated balance sheet. See Note 12 – Litigation Loss Contingencies to the accompanying financial statements.

Mineral Interests – As part of the settlement with HP A&M, on January 28, 2015, HP A&M assigned its 75% mineral interests in the Arkansas River land to us. Together with the 25% mineral interests we held prior to the settlement, we now own approximately 13,900 acres of mineral interests in the Arkansas River Valley. We have valued our mineral interests at approximately \$1,425,500. The settlement is described in greater detail in Note 12 – Litigation Loss Contingencies to the accompanying financial statements.

#### Sky Ranch

In 2010, we purchased approximately 931 acres of undeveloped land located in unincorporated Arapahoe County known as Sky Ranch. Sky Ranch is located directly adjacent to I-70, 16 miles east of downtown Denver, four miles north of the Lowry Range, and four miles south of Denver International Airport.

The property includes rights to 820 acre feet of water and approximately 640 acres of oil and gas mineral rights and has been zoned for residential, commercial and retail uses that may include up to 4,850 SFEs. There is currently no development at Sky Ranch. We currently lease the land to an area farmer and have leased the minerals to ConocoPhillips. We envision that when development at Sky Ranch begins, the development will be in the form of entry-level housing (houses costing around \$300,000); however, we are still evaluating the best use for the property. Currently we plan to partner with home builders/developers to develop the Sky Ranch property. We are anticipating that the home builder/developer will construct infrastructure such as roads, curbs and gutters, and we will construct the necessary water and wastewater systems. Our plan is to provide the market with competitively priced lots that are ready for development together with affordable, sustainable, environmentally sound water and wastewater services. Although timing for development of this property is unknown, some land development experts believe the entry-level housing market is among the most active housing products in the Denver metropolitan area. At full development, the water and wastewater utilities at Sky Ranch are anticipated to generate in excess of \$145 million in tap fee revenue and approximately \$7.5 million annually in wholesale water and wastewater service fee revenue (based on current fees and charges).

Oil and Gas Lease – On March 10, 2011, we entered into a Paid-Up Oil and Gas Lease (the "O&G Lease") and Surface Use and Damage Agreement (the "Surface Use Agreement") with Anadarko E&P Company, L.P. ("Anadarko"), a wholly owned subsidiary of Anadarko Petroleum Company. The O&G Lease seeks to capitalize on the growing interest in the region's Niobrara Oil Formation. Pursuant to the O&G Lease, we received an up-front payment of \$1,900 per net mineral leased acre, or \$1,243,400, and 20% of gross proceeds royalty (less certain taxes) from the sale of any oil and gas produced from our property. In December 2012, the O&G Lease was purchased by a wholly owned subsidiary of ConocoPhillips. The O&G Lease had a term of three (3) years commencing on March 10, 2011. The lease was extended for an additional two (2) years, and we received an additional up-front payment for the extension of \$1,243,400. Pursuant to the Surface Use Agreement, ConocoPhillips may drill on up to three well pad sites on the Sky Ranch property covered under the O&G Lease. Additionally, we will receive \$3,000 per acre for land that is permanently disturbed for use in the exploration and production of oil and gas. During fiscal 2015, two wells were drilled within our mineral interest. Beginning in March 2015, both wells were placed into service and began producing oil and gas and accruing royalties to us. In May 2015, certain gas collection infrastructure was extended to the property to allow the collection of gas from the wells and accrual of royalties attributable to gas production. During the six months ended August 31, 2015, we received \$412,700 in royalties attributable to these two wells.

In the past three years, we have experienced increased water demands for hydraulic fracturing of oil and gas wells being developed in the Niobrara Formation around our Sky Ranch property and the Land Board's Lowry Range property. These demands have been curtailed by the recent decline in oil prices. The wells developed in the Niobrara Formation that we have served were utilizing between seven and 12 million gallons of water to drill and frack, which equates to selling water to between approximately 53 and 92 SFEs for an entire year.

#### Arapahoe County Fairgrounds Agreement for Water Service

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

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

#### Well Enhancement and Recovery Systems

In January 2007, we, along with two other parties, formed Well Enhancement and Recovery Systems, LLC ("Well Enhancement LLC"), to develop a new deep water well enhancement tool and process that we believe will increase the efficiency of wells completed into the Denver Basin groundwater formations. In fiscal 2008, the well enhancement tool and process was completed and tested on two deep water wells developed by an area water provider with favorable results. According to results from studies performed by an independent hydro-geologist, the well enhancement tool effectively increased the production of the two test wells by 80% and 83% when compared to that of nearby wells developed in similar formations at similar depths. Based on the positive results of the test wells, we continue to refine the process of enhancing deep water wells and are marketing the tool to area water providers. On April 27, 2010, we and the other remaining owner of Well Enhancement LLC acquired the third partner's one-third interest in Well Enhancement LLC. Following the acquisition, the remaining partners each hold a 50% interest in Well Enhancement LLC. We used our tool on three wells and one well during fiscal 2013 and fiscal 2014, respectively. We did not use our tool during fiscal 2015.





Revenues

We generate revenues through two separate lines of businesses – our wholesale water and wastewater utility business and our farming operations – which are described below. On August 18, 2015, our farming operations were sold to Arkansas River Farms. Under the terms of the purchase and sale agreement, we will continue to manage the farms and receive all related revenues through December 31, 2015, after which time we intend to discontinue our farming operations and the farm operating revenues and expenses will be presented as discontinued operations in the Statement of Operations.

**Wholesale Water and Wastewater Business** – We generate revenues through our wholesale water and wastewater segment predominately from three sources: (i) monthly service and contract delivery fees, (ii) one time water and wastewater tap fees and construction fees, and (iii) consulting fees. Our revenue sources and how we account for them are described in greater detail below. We typically negotiate the payment terms for tap fees, construction fees, and other water and wastewater service fees with our wholesale customers as a component of our service agreements prior to construction of the project. However, with respect to customers on the Lowry Range, pursuant to the Lease, the District's rates and charges to such end-use customers may not exceed the average of similar rates and charges of three nearby water providers.

**Monthly Service Fees** – Monthly wholesale water usage fees are assessed to our customers based on actual metered deliveries to their end-use customers each month. Water usage fees are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. The water usage fees for end-use customers on the Lowry Range are noted below in table B:

Table B - Tiered Water Usage Pricing Structure

Amount of consumption	Price (\$ per thousand gallons)		
	2015	2014	2013
Base charge per SFE	\$30.35	\$30.35	\$27.62
0 gallons to 10,000 gallons	\$3.51	\$3.51	\$2.81
10,001 gallons to 20,000 gallons	\$5.31	\$5.31	\$3.69
20,001 gallons to 40,000 gallons	\$8.12	\$8.12	\$6.56
40,001 gallons and above	\$9.55	\$9.55	\$8.93

The figures in Table B reflect the amounts charged to the District's end-use customers. In exchange for providing water service to the District's Lowry Range customers, we receive 98% of the usage charges received by the District relating to water services after deducting the required royalty to the Land Board (described above at Rangeview Water Supply and Lowry Range – Land Board Royalties). In exchange for providing wastewater services, we receive 90% of the District's monthly wastewater service fees, as well as the right to use or sell the reclaimed water.

The District's 2015 rates and charges for wastewater service are based on a monthly fee of \$10.05 per SFE plus a \$7.40 per thousand gallons treated usage fee.

In addition to the tiered water usage pricing structure, we currently charge a hydrant rate of \$10.50 per thousand gallons for commercial and industrial customers. We also collect other immaterial fees and charges from customers and other users to cover miscellaneous administrative and service expenses, such as application fees, review fees and permit fees.

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

The District's 2015 water tap fees are \$24,620, and its wastewater tap fees are \$4,988.

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

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

iii) Consulting Fees – Consulting fees are fees we receive, typically on a monthly basis, from municipalities and area water providers along the I-70 corridor, for systems with respect to which we provide contract operations services.

Farming Operations – On August 18, 2015, our farming operations were sold to Arkansas River Farms. Under the terms of the purchase and sale agreement, we will continue to receive lease income through December 31, 2015, after which time we intend to discontinue our farming operations. Prior to the sale of our farms, we leased our farms to local area farmers on both a cash and crop share lease basis. Cash lease farmers are charged a fixed fee, billed semi-annually in March and November. During the November billing cycle our cash lease billings will include either a discount or a premium adjustment based on actual water deliveries by the FLCC. Our crop share lease fees are based on actual crop yields and are received upon the sale of the crops. All fees are estimated and recognized ratably on a monthly basis.

### Significant Customers

Our wholesale water and wastewater sales to the District pursuant to the Rangeview Water Agreements accounted for 19%, 9% and 34% of our total water revenues for the years ended August 31, 2015, 2014 and 2013, respectively. The District has one significant customer, the Ridgeview Youth Services Center ("Ridgeview"). Pursuant to our Rangeview Water Agreements with the District, we are providing water to Ridgeview on behalf of the District. Ridgeview accounted for 16%, 7% and 28% of our total water revenues for the years ended August 31, 2015, 2014 and 2013, respectively.

Our wholesale water sales directly and indirectly to ConocoPhillips accounted for approximately 75%, 88% and 59% of our total water revenues for the fiscal years ended August 31, 2015, 2014 and 2013, respectively.

### Our Projected Operations

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

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

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

Our water and wastewater systems conjunctively use surface and groundwater supplies and storage of raw water and highly treated effluent supplies to provide a balanced sustainable water supply for our wholesale customers and their end-use customers. Integrating conservation practices and incentives together with effective water reuse demonstrates

our commitment to providing environmentally responsible, sustainable water and wastewater services. Water supplies and water storage reservoirs are competitively sought throughout the west and along the Front Range of Colorado. We believe regional cooperation among area water providers in developing new water supplies, water storage, and transmission and distribution systems provides the most cost effective way of expanding and enhancing service capacities for area water providers. We continue to discuss developing water supplies and water storage opportunities with area water providers.

We expect the development of our Rangeview Water Supply to require a significant number of high capacity deep water wells. We anticipate drilling separate wells into each of the three principal aquifers located beneath the Lowry Range. Each well is intended to deliver water to central water treatment facilities for treatment prior to delivery to customers. Development of our Lowry Range surface water supplies will require facilities to divert surface water to storage reservoirs to be located on the Lowry Range and treatment facilities to treat the water prior to introduction into our distribution systems. Surface water diversion facilities will be designed with capacities to divert the surface water when available (particularly during seasonal events such as spring run-off and summer storms) for storage in reservoirs to be constructed on the Lowry Range. Based on preliminary engineering estimates, the full build-out of water facilities (including diversion structures, transmission pipelines, reservoirs, and water treatment facilities) on the Lowry Range will cost in excess of \$340 million, based on estimated costs, and will accommodate water service to customers located on and outside the Lowry Range. We expect this build out to occur in phases over an extended period of time, and we expect that tap fees will be sufficient to fund the infrastructure costs.

Our Denver-based supplies are a valuable, locally available resource located near the point of use. This enables us to incrementally develop infrastructure to produce, treat and deliver water to customers based on their growing demands.

During fiscal 2015, we, along with the District, invested approximately \$1 million for costs associated with our wells, the addition of approximately 1.5 miles of pipeline at our Sky Ranch property, and related water infrastructure. We expect to add additional wells as demand grows. We also anticipate adding pipelines to connect our Rangeview, WISE and Sky Ranch water systems.

The District is a participant in the WISE project. This project is developing infrastructure to interconnect providers' water systems and to extend renewable water sources owned by Denver Water and Aurora Water to participating South Metro water providers, including the District and, through our agreements with the District, us. This system will diversify our sources of water and will enable providers to move water among themselves, which will increase the reliability of our and others' water systems. Through the WISE Financing Agreement, we funded the District's purchase of certain rights to use existing water transmission and related infrastructure acquired and constructed by the WISE project. We invested approximately \$2.5 million in the WISE system during fiscal 2015 (\$1.4 million was capitalized and was recorded as an obligation as of August 31, 2014) and anticipate that we will be investing approximately \$1.2 million in this system during fiscal 2016 and each of the next four years.

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

We plan to develop additional water assets within the Denver area and are exploring opportunities to utilize our water assets in areas adjacent to our existing water supplies.

### Water and Growth in Colorado

After experiencing a weak economy through 2012, much like that of the U.S. as a whole, Colorado began recovering during 2013 and 2014 and continued to improve during 2015. The key drivers in our business model are:

Housing Starts – From September 2014 to September 2015 the annual housing starts increased by 14%. From September 2013 to September 2014 the annual housing starts increased by 14%.

Unemployment – The unemployment rate in Colorado was 4.1% at August 31, 2015, compared to a national unemployment rate of 5.1%. Colorado added an estimated 58,600 jobs from August 2014 to August 2015.

Population – The Denver Regional Council of Governments ("DRCOG"), a voluntary association of over 50 county and municipal governments in the Denver metropolitan area, continues to estimate that the Denver metropolitan area

population will increase by about 44% from today's 2.7 million people to 3.9 million people by the year 2030. A Statewide Water Supply Initiative report by the Colorado Water Conservation Board estimates that the South Platte River basin, which includes the Denver metropolitan region, will grow from a current population of 3.2 million to 4.9 million by the year 2030; while the state's population will increase from 4.7 million to 7.2 million.

Demand – Approximately 70% of the state's projected population increase is anticipated to occur within the South Platte River basin. Significant increases in Colorado's population, particularly in the Denver metro region and other areas in the water-short South Platte River basin, together with increasing agricultural, recreational, and environmental water demands, will intensify competition for water supplies. The estimated population increases are expected to result in demands for water services in excess of the current capabilities of municipal service providers, especially during drought conditions.

Supply – The Statewide Water Supply Initiative estimates that population growth in the Denver region and the South Platte River basin will result in additional water supply demands of over 400,000 acre feet by the year 2030.

Development – Colorado law requires property developers to demonstrate that they have sufficient water supplies for their proposed projects before rezoning or annexation applications will be considered. These factors indicate that water and availability of water will continue to be critical to growth prospects for the region and the state, and that competition for available sources of water will continue to intensify. We focus the marketing of our water supplies and services to developers and home builders that are active along the Colorado Front Range as well as other area water providers in need of additional supplies.

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

### Competition

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

- (i) the purchase of water and wastewater taps in exchange for our obligation to construct certain Wholesale Facilities;
- (ii) the establishment of payment terms, timing, capacity and location of Special Facilities (if any); and
- (iii) specific terms related to our provision of ongoing water and wastewater services to our local governmental customers as well as the governmental entity's end-use customers.

Although we have exclusive long-term water and wastewater service contracts for 24,000 acres of the 27,000-acre Lowry Range pursuant to the Service Agreement, providing water and wastewater services to areas other than Sky Ranch and the majority of the Lowry Range is subject to competition. Alternate sources of water are available, principally from other private parties, such as farmers or others owning water rights that have historically been used for agriculture, and from municipalities seeking to annex new development areas in order to increase their tax base. Our principal competition in areas close to the Lowry Range is the City of Aurora. Principal factors affecting competition for potential purchasers of our Export Water include the availability of water for the particular purpose, the cost of delivering the water to the desired location (including the cost of required taps), and the reliability of the water supply during drought periods. We estimate that the water assets we own and have the exclusive right to use have a supply capacity of approximately 59,400 SFE units, and we believe they provide us with a significant competitive advantage along the Front Range. Our legal rights to the Rangeview Water Supply have been confirmed for municipal use and a significant portion of our water supply is close to Denver area water users. Our pricing structure is competitive and our water portfolio is well balanced with senior surface water rights, groundwater rights, storage capacity and reclaimed water supplies.

### Environmental, Health and Safety Regulation

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

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

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

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

**Clean Water Act** – The Clean Water Act regulates wastewater discharges from drinking water and wastewater treatment facilities and storm water discharges into lakes, rivers, streams, and groundwater. The State of Colorado has assumed primary responsibility for enforcing the standards established by the federal Clean Water Act for wastewater discharges from domestic water and wastewater treatment facilities and has adopted the Colorado Water Quality Control Act and related regulations. It is our policy to obtain and maintain all required permits and approvals for discharges from our water and wastewater facilities and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations might occur which might result in fines and penalties, but we have no reason to believe that any such fines or penalties are pending or will be assessed.



In the future, we anticipate changing our method of treating wastewater, which will require future additional capital investments, as additional regulations become effective. We anticipate spending between \$400,000 and \$500,000 during fiscal year 2016 for improvements at our wastewater treatment facilities necessary to maintain compliant operations in light of more stringent discharge criteria for ammonia-nitrogen and chlorine residual.

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

#### Employees

We currently have seven full-time employees.

#### Available Information and Website Address

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

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

#### Item 1A – Risk Factors

The following section describes the material risks and uncertainties that management believes could have a material adverse effect on our business, financial condition, results of operations, and the market price of our common stock. The risks discussed below include forward-looking statements, and our actual results may differ materially from those discussed in these forward-looking statements. These risks should be read in conjunction with the other information set forth in this report, including the accompanying financial statements and notes thereto.

Our net losses may continue and we may not have sufficient cash flows from operations or other capital resources to pursue our business objectives. We have experienced significant net losses, our cash flows from operations have not been sufficient to fund our operations in the past and we have been required to raise debt and equity capital to remain in operation. Since 2004, we have obtained \$76.2 million through (i) the issuance of \$25.2 million of common stock (includes the issuance of stock pursuant to the exercise of options, net of expenses), (ii) the issuance of \$5.2 million of Convertible Debt, which was converted to common stock on January 11, 2011, and (iii) the sale of our Arkansas River water and land for approximately \$45.8 million in cash. Our ability to fund our operational needs and meet our business objectives will depend on our ability to generate cash from future operations. We currently have a limited number of customers. If our future cash flows from operations and other capital resources are not sufficient to fund our operations and the significant capital expenditure requirements to build our water delivery systems, we may be forced to reduce or delay our business activities, or seek to obtain additional debt or equity capital. Economic conditions and disruptions have previously caused substantial volatility in capital markets, including credit markets and the banking industry, increasing the cost and significantly reducing the availability of financing, which may reoccur in the future. There can be no assurance that financing will be available on acceptable terms or at all.

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

District may adjust tap fees and rates and charges for water service on the Lowry Range based on the average of those charged by this group, and we receive 98% of whatever the District charges its customers. Our costs associated with the construction of water delivery systems and the production, treatment and delivery of water are subject to market conditions and other factors, which may increase at a significantly greater rate than the fees we receive from the District. Factors beyond our control and which cannot be predicted, such as government regulations, insurance and labor markets, drought, water contamination and severe weather conditions, like tornadoes and floods, may result in additional labor and material costs that may not be recoverable under the current rate structure. Either increased customer demand or increased water conservation may also impact the overall cost of our operations. If the costs for construction and operation of our wholesale water services, including the cost of extracting our groundwater, exceed our revenues, we would be providing service to the District for use at the Lowry Range at a loss. The District may petition the Land Board for rate increases; however, there can be no assurance that the Land Board would approve a rate increase request. Further, even if a rate increase were approved, it might not be granted in a timely manner or in an amount sufficient to cover the expenses for which the rate increase was sought.

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

Sales to the fracking industry could be curtailed or eliminated in the future. Our water sales are highly concentrated directly and indirectly with one company providing fracking services to the oil and gas industry on and around the Lowry Range and our Sky Ranch property. Regulations, fracking technologies, and the success of the wells are conditions that could limit or eliminate our sales to this customer base as well as renewals of our oil and gas leases, if any, in the future. Investment in oil and gas development is dependent on the price of oil and, recently, the price of oil has decreased significantly and has remained at relatively low levels. These sales essentially ceased in March 2015, and we have no contractual commitment that will ensure these sales will resume in the future.

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

Development on the Lowry Range is not within our control and is subject to obstacles. Development on the Lowry Range is controlled by the Land Board, which consists of a five person citizen group representing education, agriculture, local government and natural resources, plus one at-large commissioner, each appointed for a four-year term by the Colorado governor and approved by the Colorado Senate. The Land Board's focus with respect to issues such as development and conservation on the Lowry Range tends to change as membership on the Land Board changes. In addition, there are often significant delays in the adoption and implementation of plans with respect to property administered by the Land Board because the process involves many constituencies with diverse interests. In the event water sales are not forthcoming or development of the Lowry Range is delayed or abandoned, we may need to use our capital resources, incur additional short or long-term debt obligations or seek to sell additional equity, and there are no assurances that we would have sufficient capital resources or be successful in obtaining additional operating capital.

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

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

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

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

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

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

We have a limited number of employees and may not be able to manage the increasing demands of our operations. We have a limited number of employees to administer our existing assets, interface with applicable governmental bodies, market our services and plan for the construction and development of our future assets. We may not be able to maximize the value of our water assets because of our limited manpower. We depend significantly on the services of Mark W. Harding, our President and Chief Financial Officer. The loss of Mr. Harding would cause a significant interruption of our operations. The success of our future business development and ability to capitalize on growth opportunities depends on our ability to attract and retain additional experienced and qualified persons to operate and manage our business. State regulations set the training, experience and qualification standards required for our employees to operate specific water and wastewater facilities. Failure to find state-certified and qualified employees to

support the operation of our facilities could put us at risk for, among other things, regulatory penalties (including fines and suspension of operations), operational errors at the facilities, improper billing and collection processes, and loss of contracts and revenues. We cannot assure you that we can successfully manage our assets and our growth.

A failure of the water wells or distribution networks that we own or control could result in losses and damages that may affect our financial condition and reputation. We distribute water through a network of pipelines and store water in storage tanks and a pond. A failure of these pipelines, tanks or the pond could result in injuries and damage to property for which we may be responsible, in whole or in part. The failure of these pipelines, tanks, or pond may also result in the need to shut down some facilities or parts of our water distribution network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water delivery requirements prescribed by our contracts, which could adversely affect our financial condition, results of operations, cash flow, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable through rates and charges, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Conflicts of interest may arise relating to the operation of the District. Our officers and employees constitute 50% of the directors of the District. Pure Cycle, along with our officers and employees and one unrelated individual, own the 40 acres that constitute the District. We have made loans to the District to fund its operations. At August 31, 2015, total principal and interest owed to us by the District was \$591,200. Pursuant to our Service Agreement with the District for the provision of water services, the District retains two percent of the revenues from the sale of water to its end-use customers on the Lowry Range. Proceeds from the fee collections will initially be used to repay the District's obligations to us, but after these loans are repaid, the District is not required to use the funds to benefit Pure Cycle. We have received benefits from our activities undertaken in conjunction with the District, but conflicts may arise between our interests and those of the District, and with our officers who are acting in dual capacities in negotiating contracts to which both we and the District are parties. We expect that the District will expand when more properties are developed and become part of the District, and our officers acting as directors of the District will have fiduciary obligations to those other constituents. There can be no assurance that all conflicts will be resolved in the best interests of Pure Cycle and its shareholders. In addition, other landowners coming into the District will be eligible to vote and to serve as directors of the District. There can be no assurances that our officers and employees will remain as directors of the District or that the actions of a subsequently elected board would not have an adverse impact on our operations.

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

Our Lowry Range Surface water rights are "conditional decrees" and require findings of reasonable diligence. Our surface water interests and reservoir sites at the Lowry Range are conditionally decreed and are subject to a finding of reasonable diligence from the Colorado water court every six years. To arrive at a finding of reasonable diligence, the water court must determine that we continue to diligently pursue the development of said water rights. If the water court is unable to make such a finding, we could lose the water right under review. During fiscal 2012, the Lowry Range conditional decrees were granted their first review by the water court which determined that we and the District

met the diligence criteria. The water court entered a finding of reasonable diligence on the Lowry Range surface water decrees on February 11, 2012. Our next diligence period will be in February 2018. If the water court does not make a determination of reasonable diligence in 2018, it would materially adversely impact the value of our interests in the Rangeview surface water supply.



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

In October 2009, the Water Quality Control Division of the Colorado Department of Public Health and Environment advised us of proposed changes to the discharge permit for the District's Coal Creek wastewater reclamation facility. The revised permit requires compliance with effluent ammonia limitations, use of E. coli rather than fecal coliform as an indicator of effluent disinfection efficacy, and a more stringent (lower) effluent chlorine residual limitation. The revised permit requires us to comply with the new criteria by April 2016. Although we anticipate being able to comply with the revised permit, there can be no assurances that we will be able to comply with future requirements or that the cost of such compliance will be covered by the rate structure required by the Rangeview Water Agreements.

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

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

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

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

The District's and our rights under the Lease have been challenged by third parties. The District's and our rights under the Lease have been challenged by third parties, including the Land Board in the past. In 2014, in connection with settling a lawsuit filed by us and the District against the Land Board, the Land Board, the District and we amended and restated the Lease to clarify and update a number of provisions. However, there are issues still subject to negotiation and it is likely that during the remaining 66-year term of the Lease the parties will disagree over interpretations of provisions in the Lease again. There can be no assurance that the District's or our rights under the Lease will not be challenged in the future, which could require potentially expensive litigation to enforce our rights.

We are subject to the risk of possibly being required to register as an investment company. On August 18, 2015, we completed the sale of our Arkansas River water properties and water rights for approximately \$45.8 million in cash. The net proceeds from the sale of the Arkansas River water properties and water rights, which currently represents 51% of our total assets, are currently invested in money market accounts, which are not regarded as "investment securities" under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Although our board of directors believes that we are not engaged primarily in the business of investing, reinvesting, or trading in securities, and we do not hold ourselves out as being primarily engaged in those activities, we could fall within the scope of Section 3(a)(1)(C) of the Investment Company Act if the net proceeds from the sale of the Arkansas River water properties and water rights and other cash and cash equivalents are invested in investment securities (as defined in the Investment Company Act) and such investment securities represent more than 40% of our total assets (exclusive of cash and certain cash equivalents). A company that falls within the scope of Section 3(a)(1)(C) of the Investment Company Act can avoid being regulated as an investment company if it can rely on certain of the exclusions from being deemed to be an "investment company" under the Investment Company Act. One such exclusion is Rule 3a-2 under the Investment Company Act, which provides that a company is deemed not to be an investment company during a period of time not to exceed one year provided that the company has a bona fide intent to be engaged primarily, as soon as is reasonably possible (in any event by the termination of such period of time), in a business other than that of an investment company. If necessary, our board of directors would explore transactions pursuant to which we would cease to be deemed to be an investment company, such as the disposition of our investment securities, including through liquidation, or the acquisition of sufficient assets that are not investment securities in order for us not to be deemed an investment company under the Investment Company Act. There can be no assurance that we would be able to complete such actions by the applicable deadline, or at all. If we were required to register as an "investment company" under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as currently conducted and could have a material adverse effect on us.

Our stock price has been volatile in the past and may decline in the future. Our common stock has experienced significant price and volume fluctuations in the past and may experience significant fluctuations in the future depending upon a number of factors, some of which are beyond our control. Factors that could affect our stock price and trading volume include, among others, the perceived prospects of our business; differences between anticipated and actual operating results; changes in analysts' recommendations or projections; the commencement and/or results of litigation and other legal proceedings; and future sales of our common stock by us or by significant shareholders,

officers and directors. In addition, stock markets in general have experienced extreme price and volume volatility from time to time, which may adversely affect the market price of our common stock for reasons unrelated to our performance.

Item 1B – Unresolved Staff Comments

None.

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Item 2 – Properties

Corporate Office – Effective January 2015, we entered into an operating lease for approximately 2,500 square feet of office and warehouse space. The lease has a one-year term with payments of \$3,000 per month. We have plans in place for office space after December 2015.

Water Related Assets – In addition to the water rights and adjudicated reservoir sites that are described in Item 1 – Our Water Assets, we also own a 500,000-gallon water tank, 400,000-barrel storage reservoir, three deep water wells, a pump station, and several miles of water pipeline in Arapahoe County, Colorado. Additionally, although owned by the District, we operate and maintain another 500,000-gallon water tank, two deep water wells, a pump station, three alluvial wells, the District's wastewater treatment plant, and water distribution and wastewater collection pipelines that serve customers located at the Lowry Range. These assets are used to provide service to our existing customers.

Land – We own approximately 931 acres of land known as Sky Ranch that is described further in Item 1 – Our Water and Land Assets – Sky Ranch. As described in Item 1 – Our Water and Land Assets – Arkansas River Water and Land, on August 18, 2015, we and our wholly owned subsidiary, PCY Holdings, sold approximately 14,600 acres of real property located in Bent, Otero, and Prowers Counties, Colorado, and related water rights to Arkansas River Farms for approximately \$45.8 million in cash. We also own 40 acres of land that comprise the current boundaries of the District.

Other Equipment – We also owned various water delivery fixtures located on our farm properties, which were sold to Arkansas River Farms on August 18, 2015. These items consisted mainly of irrigation pumps, irrigation ditches, and irrigation pipelines.

Item 3 – Legal Proceedings

None.

Item 4 – Mine Safety Disclosures

None.

## PART II

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

## (a) Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol "PCYO." The high and low sales prices of our common stock, by quarter, for the fiscal years ended August 31, 2015 and 2014 are presented below:

Table C - Market Information

	August 31	May 31	February 28	November 30
Fiscal 2015 quarters ended:				
Market price of common stock				
High	\$ 5.55	\$ 5.50	\$ 5.11	\$ 7.00
Low	\$ 4.37	\$ 4.12	\$ 3.54	\$ 4.94
	August 31	May 31	February 28	November 30
Fiscal 2014 quarters ended:				
Market price of common stock				
High	\$ 7.36	\$ 7.00	\$ 7.19	\$ 7.19
Low	\$ 5.40	\$ 4.96	\$ 5.62	\$ 4.34

## (b) Holders

On November 2, 2015, there were 997 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 capital and earnings from operations, if any, for use in expanding and developing our business. Any future decision as to the payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, financial position, capital requirements, plans for expansion and such other factors as our board of directors deems relevant. The terms of our Series B Preferred Stock prohibit payment of dividends on common stock unless all dividends accrued on the Series B Preferred Stock have been paid and require dividends to be paid on the Series B Preferred Stock if proceeds from the sale of Export Water exceed \$36,026,232. For further discussion see Note 8 – Shareholder's Equity to the accompanying financial statements.

## (d) Securities Authorized For Issuance Under Equity Compensation Plans

Table D - Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding

	(a)	(b)	securities reflected in column (a) (c)
Equity compensation plans:			
Approved by security holders	312,000	\$ 5.10	1,600,000
Not approved by security holders	–	–	–
Total	312,000	\$ 5.10	1,600,000

(e) Performance Graph <sup>1</sup>

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

	8/10	8/11	8/12	8/13	8/14	8/15
Pure Cycle Corporation	100.00	98.34	66.45	172.76	216.61	166.11
S&P 500	100.00	118.50	139.83	165.99	207.89	208.88
Peer Group	100.00	127.15	145.51	174.44	193.70	203.47

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

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

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

None.

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

None.

Item 6 – Selected Financial Data

Table E - Selected Financial Data

In thousands (except per share data)	For the Fiscal Years Ended August 31,				
	2015	2014	2013	2012	2011
<b>Summary Statement of Operations Items:</b>					
Total revenues	\$2,323.7	\$3,091.1	\$1,857.5	\$284.4	\$282.1
Net loss	\$(23,127.9)	\$(311.4 )	\$(4,150.4 )	\$(17,418.7 )	\$(6,016.2 )
Basic and diluted loss per share	\$(0.96 )	\$(0.01 )	\$(0.17 )	\$(0.72 )	\$(0.26 )
Weighted average shares outstanding	24,041	24,038	24,038	24,038	23,169
<b>Summary Balance Sheet Information:</b>					
	As of August 31,				
	2015	2014	2013	2012	2011
Current assets	\$39,580.9	\$4,463.3	\$9,900.0	\$7,661.8	\$5,065.6
Total assets	\$73,060.9	\$108,173.8	\$108,618.3	\$111,582.0	\$116,122.7
Current liabilities	\$1,499.0	\$3,274.4	\$5,402.3	\$6,254.8	\$658.3
Long-term liabilities	\$1,476.4	\$13,868.9	\$65,443.5	\$75,209.5	\$68,174.0
Total liabilities	\$2,975.4	\$17,143.3	\$70,845.8	\$81,464.3	\$68,832.3
Equity	\$70,085.5	\$91,030.5	\$37,772.5	\$30,117.8	\$47,290.3

The following items had a significant impact on our operations:

In fiscal 2015, we sold our remaining farm assets for approximately \$45.8 million, for a loss of approximately \$22.1 million. In conjunction with the sale, we repaid \$4.9 million in mortgage debt relating to the farms and we invested approximately \$3.5 million into our water systems.

In fiscal 2014, in order to protect our farm assets, we acquired the remaining approximately \$2.6 million of the \$9.6 million in HP A&M defaulted notes described in Note 7 – Long-Term Debt and Operating Lease – Promissory Notes Payable by HP A&M in Default in the accompanying financial statements. Additionally, we borrowed \$1.75 million, sold farms for \$5.8 million, and invested \$3.7 million in our water systems. Additionally, we recorded an impairment of approximately \$400,000 on land and water rights held for sale, and we recorded a gain of \$1.3 million upon completing the sale of certain farms that we previously impaired in fiscal 2012. See further discussion in Note 4 – Water and Land Assets in the accompanying financial statements.

In fiscal 2013, in order to protect our farm assets, we acquired approximately \$7 million of the \$9.6 million in HP A&M defaulted notes. Additionally we sold 1,500,000 unregistered shares of Pure Cycle common stock owned by HP A&M for \$2.35 per share, yielding approximately \$3.4 million, net of expenses.

In fiscal 2012, the Paradise Water Supply asset was deemed fully impaired and the entire asset value of \$5.5 million was written off and recorded in the accompanying financial statements. Additionally, we recorded an impairment of \$6.5 million on land and water rights held for sale. See further discussion in Note 4 – Water and Land Assets in the accompanying financial statements.

In fiscal 2015, 2014, 2013, 2012, and 2011, respectively, we imputed \$23,800, \$1.4 million, \$3.3 million, \$3.5 million, and \$3.8 million of interest related to the Tap Participation Fee payable to HP A&M. As described below, this represents the difference between the net present value and the estimated realizable value of the Tap Participation Fee, which was being charged to expense using the effective interest method over the estimated development period utilized in the valuation of the Tap Participation Fee. The Tap Participation Fee was payable when we sell water taps and received funds from such water tap sales or other dispositions of property purchased from HP A&M. As further discussed in Note 12 – Litigation Loss Contingencies, we settled our claims against HP A&M relating to the defaults, and the Tap Participation Fee was eliminated.

In fiscal 2011, we acquired approximately 931 acres of land known as Sky Ranch for \$7.0 million.





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

Overview

The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors, as described in "Risk Factors" and elsewhere in this Annual Report on Form 10-K, that could cause our actual growth, results of operations, performance, financial position and business prospects and opportunities for this fiscal year and the periods that follow to differ materially from those expressed in, or implied by, those forward-looking statements. Readers are cautioned that forward-looking statements contained in this Form 10-K should be read in conjunction with our disclosure under the heading "FORWARD LOOKING STATEMENTS" on page 1.

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

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

Our MD&A section includes the following items:

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

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

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

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

Our Business

Pure Cycle Corporation is a Colorado corporation that (i) provides wholesale water and wastewater services to end-use customers of governmental entities and to commercial and industrial customers and (ii) until the end of calendar 2015 manages land and water assets for farming.

Wholesale Water and Wastewater

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

We are a vertically integrated wholesale water and wastewater provider, which means we own or control substantially all assets necessary to provide wholesale water and wastewater services to our customers. This includes owning (i) water rights which we use to provide domestic, irrigation, and industrial water to our wholesale customers (we own

surface water, groundwater, reclaimed water rights and storage rights), (ii) infrastructure (such as wells, diversion structures, pipelines, reservoirs and treatment facilities) required to withdraw, treat, store and deliver water, (iii) infrastructure required to collect, treat, store and reuse wastewater, and (iv) infrastructure required to treat and deliver reclaimed water for irrigation use.

We currently provide wholesale water and wastewater service predominately to two local governmental entity customers. Our largest wholesale domestic customer is the District. We provide service to the District and its end-use customers pursuant to the Rangeview Water Agreements. Through the District, we serve 258 SFE water connections and 157 SFE wastewater connections located in southeastern metropolitan Denver. In the past three years, we have been providing water to industrial customers in the oil and gas industry located in our service areas and adjacent to our service areas for the purpose of hydraulic fracturing. Oil and gas operators have leased more than 135,000 acres within and adjacent to our service areas for the purpose of exploring oil and gas interests in the Niobrara and other formations and this activity had led to increased water demands. As a result of the recent decline in oil prices drilling has been significantly reduced, and as of the date of this report, we are not selling water to the oil and gas industry.

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

#### Agricultural Operations and Leasing

On August 18, 2015, we and our wholly owned subsidiary, PCY Holdings, sold approximately 14,600 acres of real property and related water rights in the FLCC to Arkansas River Farms for approximately \$45.8 million in cash. Pursuant to the purchase and sale agreement, we retained our farm leasing operations through the December 31, 2015, after which time we intend to discontinue our farm operations.

Based on total acreage, approximately 78% of our farm operations are managed through cash lease arrangements with local area farmers whereby we charge a fixed fee to lease our land and the water for agricultural purposes to tenant farmers. Based on total acreage, approximately 22% of our farm operations are managed through crop share leases, pursuant to which we and the tenant farmer jointly share in the gross revenues generated from the crops grown under a 75% farmer, 25% landlord participation. The majority of crops grown on our farms are alfalfa, with a number of acres also planted in corn, sorghum, and wheat.

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

These land interests are described in the Arkansas River Assets and Sky Ranch sections of Note 4 – Water and Land Assets to the accompanying financial statements.

#### Critical Accounting Policies and Use of Estimates

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

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



## Revenue Recognition

Our revenues consist mainly of monthly service fees, tap fees, construction fees, consulting fees, and beginning in fiscal 2013, farm operations. As further described in Note 2 – Summary of Significant Accounting Policies to the accompanying financial statements, proceeds from tap sales and construction fees are deferred upon receipt and recognized in income based on whether we own or do not own the facilities constructed with the proceeds. We recognize tap fees derived from agreements for which we construct infrastructure owned by others as revenue, along with the associated costs of construction, pursuant to the percentage-of-completion method. The percentage-of-completion method requires management to estimate the percent of work that is completed on a particular project, which could change materially throughout the duration of the construction period and result in significant fluctuations in revenue recognized during the reporting periods throughout the construction process. We did not recognize any revenues pursuant to the percentage-of-completion method during the fiscal years ended August 31, 2015, 2014 or 2013.

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

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

Pursuant to the O&G Lease and an oil and gas lease on 40 acres of mineral estate the Company owns adjacent to the Lowry Range (the "Rangeview Lease"), we received up-front payments which are recognized as other income on a straight-line basis over the initial term or extension of term, as applicable, of the leases.

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

## Impairment of Water Assets and Other Long-Lived Assets

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

Our water assets will be utilized in the provision of water services which inevitably will encompass many housing and economic cycles. Our service capacities are quantitatively estimated based on an average single family home consuming approximately 0.2 acre feet of water per year. Average water deliveries are approximately 0.4 acre feet; however, approximately 50% or 0.2 acre feet are returned and available for reuse. Our water supplies are legally decreed to us through the water court. The water court decree allocates a specific amount of water (subject to

continued beneficial use) which historically has not changed. Thus, individual housing and economic cycles typically do not have an impact on the number of connections we can serve with our supplies or the amount of water legally decreed to us relating to these supplies.

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

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Our Water Rights – We determine the undiscounted cash flows for our Denver-based assets and, prior to the sale of our farms, the Arkansas River assets by estimating tap sales to potential new developments in our service areas and along the Front Range, using estimated future tap fees less estimated costs to provide water services, over an estimated development period. Actual new home development in our service areas and the Front Range, actual future tap fees, and actual future operating costs inevitably will vary significantly from our estimates, which could have a material impact on our financial statements as well as our results of operations. We performed an impairment analysis as of August 31, 2015, and determined there were no material changes and that our Denver-based assets are not impaired and their costs are deemed recoverable. Our impairment analysis is based on development occurring within areas in which we have service agreements (e.g., Sky Ranch and the Lowry Range) as well as in surrounding areas, including the Front Range and the I-70 corridor. Our combined Rangeview Water Supply and Sky Ranch water assets have a carrying value of \$27.7 million as of August 31, 2015. Based on the carrying value of our water rights, the long term and uncertain nature of any development plans, current tap fees of \$24,620 and estimated gross margins, we estimate that we would need to add 2,300 new water connections (requiring 3.5% of our portfolio) to generate net revenues sufficient to recover the costs of our Rangeview Water Supply and Sky Ranch water. If tap fees increase 5%, we would need to add 2,100 new water taps (requiring 3.4% of our portfolio) to recover the costs of our Rangeview Water Supply and Sky Ranch water. If tap fees decrease 5%, we would need to add 2,400 new water taps (requiring 3.7% of our portfolio) to recover the costs of our Rangeview Water Supply and Sky Ranch water.

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

#### Tap Participation Fee

Prior to August 18, 2015, we owned approximately 14,600 acres of irrigated land together with approximately 51,000 acre-feet of Arkansas River water rights. In addition to common stock issued to purchase these assets, we agreed to pay HP A&M a defined percentage of a defined number of water taps we sold from and after the date of the agreement with HP A&M. The TPF was payable when we sold water taps and received funds from such water tap sales or other dispositions of property purchased in the HP A&M acquisition. The TPF liability was valued by estimating new home development in our service areas over an estimated development period. This was done by utilizing third-party historical and projected housing and population growth data for the Denver metropolitan area applied to an estimated development pattern supported by historical development patterns of certain master planned communities in the Denver metropolitan area. This development pattern was then applied to projected future water tap fees determined by using historical water tap fee trends. Actual new home development in our service areas and actual future tap fees inevitably varied significantly from our estimates, which could have had a material impact on our consolidated financial statements as well as our results of operations. An important component in our estimate of the value of the TPF, which was based on historical trends, was that we reasonably expected water tap fees to continue to increase in the coming years. Tap fees are market based and the continued increase in tap fees reflects, among other things, the increasing costs to acquire and develop new water supplies. Tap fees are thus partially indicative of the increasing value of our water assets.

In January 2015, we reached a settlement with HP A&M, which among other things, provided for the relinquishment by HP A&M of all claims related to the TPF, and therefore, we have eliminated the TPF payable balance on the August 31, 2015 consolidated balance sheet.

#### Fair Value Estimates

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. We generally use a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value. See Note 3 – Fair Value Measurements to the accompanying



financial statements. As discussed below, we used other methodologies to determine the fair value of the related party receivable from HP A&M, certain notes payable issued by us in exchange for HP A&M notes, and the receivable for unpaid balances that were owed to HP A&M for farm lease payments that are now payable to us.

Farm Accounts Receivable and Farm Operations – Most of the farm leases are cash only leases, although some are crop share leases. A "crop share" lease entitles us to a share of the sales from the crop sales of the farmer. As a result of the sale of our farms, the farm leases expire on December 31, 2015. The final cash based lease payments will be billed in November. The unpaid balances from the previous billings were recorded on our books as accounts receivable (less an allowance for uncollectible accounts) of \$188,600. The crop share agreements are generally one year agreements and the payment cannot be calculated until after the farmers sell their crops. Accordingly any future payments from crop share leases are not included in the future farm lease billings schedule below.

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

Table F - Contractual Farm Lease Income Receivable

	Total	Payments due to Pure Cycle by period	
		Less than 1 year	1-3 years
Contractual lease income receivable			
Farm leases receivable	\$431,800	\$431,800	\$ -
Total	\$431,800	\$431,800	\$ -

Expenses associated with the farm operations include management salaries, maintenance, property taxes and FLCC assessments. Under the terms of the purchase and sale agreement providing for the sale of our farms, we will continue to be responsible for these payments through December 2015.

#### Share-based Compensation

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

Results of Operations

## Executive Summary

The results of our operations for the fiscal years ended August 31, 2015, 2014 and 2013 were as follows:

Table G - Summary Results of Operation

	Fiscal Years Ended August 31,			Change		2014-2013	
	2015	2014	2013		\$%		\$%
Millions of gallons of water delivered	97.5	190.1	69.2	(92.6 )	-49 %	120.9	175 %
Water revenues generated	\$970,000	\$1,879,500	\$502,700	\$(909,500 )	-48 %	\$1,376,800	274 %
Water delivery operating costs incurred (excluding depreciation and depletion)	\$464,900	\$547,600	\$188,300	\$(82,700 )	-15 %	\$359,300	191 %
Water delivery gross margin %	52	% 71	% 63	%			
Wastewater treatment revenues	\$50,100	\$45,400	\$41,700	\$4,700	10 %	\$3,700	9 %
Wastewater treatment operating costs incurred	\$55,000	\$38,400	\$17,000	\$16,600	43 %	\$21,400	126 %
Wastewater treatment gross margin %	-10	% 15	% 59	%			
Other income	\$120,700	\$42,400	\$15,400	\$78,300	185 %	\$27,000	175 %
Other income costs incurred	\$90,100	\$39,400	\$1,200	\$50,700	129 %	\$38,200	3183 %
Other income gross margin %	25	% 7	% 92	%			
Farm operations	\$1,127,200	\$1,068,000	\$1,241,900	\$59,200	6 %	\$(173,900 )	-14 %
Farm operations operating costs incurred	\$126,300	\$88,100	\$96,300	\$38,200	43 %	\$(8,200 )	-9 %
Farm operations gross margin %	89	% 92	% 92	%			
General and administrative expenses	\$2,699,600	\$3,356,900	\$2,333,100	\$(657,300 )	-20 %	\$1,023,800	44 %
Net losses	\$23,127,900	\$311,400	\$4,150,400	\$22,816,500	7327 %	\$(3,839,000)	-92 %

## Changes in Revenues

We generate revenues from two segments: water and wastewater services and farm operations. Water and wastewater revenues are generated from (i) monthly wholesale water usage fees and wastewater service fees, (ii) one time water and wastewater tap fees and construction fees, and (iii) consulting fees.

Water and Wastewater Revenues – Our water deliveries decreased 49% in fiscal 2015 compared to fiscal 2014 and increased 175% in fiscal 2014 compared to fiscal 2013. Water revenues decreased 48% in fiscal 2015 compared to fiscal 2014 and increased 274% in fiscal 2014 compared to fiscal 2013. The decreases in deliveries and sales in fiscal 2015 and the increases in deliveries and sales in fiscal 2014 were primarily due to the changes in demand for water to be used for oil and gas activities – namely, fracking wells drilled into the Niobrara formation. The following table details the sources of our water sales, the number of kgal (1,000 gallons) sold, and the average price per kgal for fiscal 2015, fiscal 2014, and fiscal 2013.

Water Revenue Summary

Customer Type	2015			2014			2013		
	Sales (in thousands)	kgal	Average per kgal	Sales (in thousands)	kgal	Average per kgal	Sales (in thousands)	kgal	Average per kgal
On-Site	\$137.3	20,821.7	\$6.59	\$130.7	23,318.2	\$5.61	\$138.3	33,831.2	\$4.09
Export-Commercial	50.0	4,158.4	12.02	31.6	2,318.4	13.63	42.0	4,156.8	10.10
Industrial/Fracking	782.7	72,557.6	10.79	1,717.2	164,502.7	10.44	322.4	34,025.1	9.48
	\$970.0	97,537.7	\$9.94	\$1,879.5	190,139.3	\$9.88	\$502.7	72,013.1	\$6.98

Our gross margin on delivering water (not including depletion charges) was 52%, 71%, and 63% during fiscal 2015, 2014, and 2013, respectively. The changes in our gross margins were due to changes in demand related to water sales to the fracking industry and our ability to offset the ECCV system costs with increased water deliveries in fiscal 2014.