AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 7, 2004.

REGISTRATION NO. 333-114568

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

AMENDMENT NO. 1
TO
FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

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

4941
(Primary Standard Industrial Classification Code)

8451 DELAWARE ST.
THORNTON, COLORADO 80260
(303) 292-3456
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

MARK W. HARDING
8451 DELAWARE ST.
THORNTON, COLORADO 80260

TELEPHONE: (303) 292-3456

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

WANDA J. ABEL, ESQ.
DAVIS GRAHAM & STUBBS LLP
1550 SEVENTEENTH STREET, SUITE 500
DENVER, COLORADO 80202
TELEPHONE: (303) 892-9400

APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (2)	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price	Amount of registration fee(2)
Common Stock, $.00333 par value per share	99,962	$ 9.93	$ 992,622.66	$ 125.77

(1) Estimated solely for the purpose of computing the registration fee. The proposed maximum offering price per share and maximum aggregate offering price for the shares being registered hereby are calculated in accordance with Rule 457(c) under the Securities Act using the average of the high and low sales price per share of our common stock on June 2, 2004, as reported on the OTC Bulletin Board.

(2) We previously registered 3,586,210 shares and paid the fee in respect of such shares.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities pursuant to this prospectus until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus is not an offer to sell these securities and neither Pure Cycle nor the Selling Stockholders are soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated June 7, 2004

PROSPECTUS

3,205,367 SHARES
PURE CYCLE CORPORATION
COMMON STOCK, $.00333 PAR VALUE

_____

The 3,205,367 shares of common stock, $.00333 par value, offered hereby are being offered by Pure Cycle Corporation and by certain Pure Cycle stockholders. Of the total number of shares offered, 700,000 shares are being offered by Pure Cycle and 2,505,367 shares are being offered by the selling stockholders. See "Selling Stockholders."

Pure Cycle's common stock is quoted on the OTC Bulletin Board under the symbol "PCYO." On June 2, 2004, the last reported sales prices of our common stock on the OTC Bulletin Board was $9.95 per share. We have applied for listing of our common stock on the NASDAQ Small Cap Market under the symbol "PCYO."

FOR A DISCUSSION OF CERTAIN RISKS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" BEGINNING ON PAGE 7 OF THIS PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER SHARE	TOTAL
Offering price	-	-
Underwriting discount	-	-
Proceeds, before expenses, to Pure Cycle	-	-
Proceeds, before expenses, to selling stockholders	-	-

We have granted an over-allotment option to the underwriters. Under this option, the underwriters may elect to purchase a maximum of 480,805 additional shares from us within 30 days following the date of this prospectus to cover over-allotments. See "Plan of Distribution."

FLAGSTONE SECURITIES

The date of this prospectus is _____, 2004.

[GRAPHIC OMITED]

SPECIAL SUITABILITY FOR CALIFORNIA RESIDENTS

Natural persons resident in California who wish to purchase shares of our common stock must:

- Have net worth exclusive of home, furnishings and automobiles of not less than $250,000; and

- Have an individual income in excess of $65,000 in each of the two most recent years prior to the purchase, and a reasonable expectation of reaching the same income level in the current year.

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As used in this prospectus, the terms "Pure Cycle," the "Company," "we," "our," or "us" refer to Pure Cycle Corporation, unless the context otherwise indicates.

Unless otherwise stated, all information in this prospectus gives effect to the 1-for-10 reverse stock split of our common stock that was effective on April 26, 2004.

Unless otherwise stated in this prospectus, all information contained in this prospectus assumes no exercise of the over-allotment option granted to the underwriters.

The underwriters are offering the shares subject to various conditions and may reject all or part of any order. The common stock should be ready for delivery on or about _____ ___, 2004 against payment in immediately available funds.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully.

THE COMPANY

We own or have rights to use significant water assets which we have begun to utilize to provide water and wastewater services to customers located in the Denver, Colorado metropolitan area near our principal water assets. We will operate water and wastewater systems to deliver and treat the water we provide. Our services will include designing, constructing, operating and maintaining systems to service our customers.

Rangeview Water Assets.

We have exclusive access to approximately 29,000 acre feet per year of water from, and the exclusive right to provide water and wastewater services to, 24,000 acres of primarily undeveloped land in eastern Colorado known as the Lowry Range (the "Lowry Range service area"). The Lowry Range is located in Arapahoe County approximately 15 miles southeast of Denver and 12 miles south of the Denver International Airport. Of the approximately 29,000 acre feet of water to which we have access annually, 17,500 acre feet are available to us for use on the Lowry Range. We own the remaining 11,650 acre feet and we can "export" it from the Lowry Range to supply water to nearby communities and developers in need of additional water supplies ("Export Water"). If we do not use our full annual entitlement in any year, we are permitted to increase our utilization in a subsequent year to the extent of the deficit, but the aggregate amount to be withdrawn cannot exceed 1,165,000 area feet for customers located off the Lowry Range. We acquired these rights and the Export Water in 1996 when we entered into an 85-year agreement with the State of Colorado Board of Land Commissioners ("State Land Board"), which owns the Lowry Range, and the Rangeview Metropolitan District (the "District"), a quasi-municipal political subdivision formed for the sole purpose of providing water and wastewater services to the Lowry Range. We refer to all of these assets as our Rangeview water supply.

We are in the early stages of utilizing our Rangeview water assets. Since June 2001, we have been supplying water and wastewater services in the Lowry Range service area to approximately 200 single family equivalent, or SFE, units through service to the Ridge View Youth Services Center, a 500 bed juvenile facility. In October 2003, we entered into a contract to provide water service to Sky Ranch, a proposed mixed-use development of single and multi-family residences and commercial space. Sky Ranch will be located approximately four miles north of the Lowry Range along Interstate-70 in Arapahoe County. When the development is complete, we expect to supply Sky Ranch with water services for 4,000 SFE units. Our agreement does not call for us to provide wastewater services to Sky Ranch. In May 2004, we entered into a second agreement with the developer of Sky Ranch to provide water services to an additional 850 SFEs at Hills at Sky Ranch, a development adjacent to, and to be developed concurrently with, Sky Ranch. These two contracts are referred to herein as the "Sky Ranch Agreements." We expect the initial site development of both Sky Ranch and Hills at Sky Ranch to begin in the fall of 2004, with housing construction to begin in the spring of 2005. While we are currently actively marketing our water services to other developers and property owners in areas near the Sky Ranch development, the Ridge View Youth Services Center represents our only current operation.

Operations. We will have two sources of revenue from providing water and water services. We will receive a one time "tap" fee, generally paid by the developer, and annual service and use charges based on the monthly metered water deliveries to the water user. The water tap fee has two components:

a system development fee, which gives the customer access to the water system and is used for construction of the water delivery system, and a water resource fee, which defrays the costs of acquiring the water rights. Under the terms of our agreement with the State Land Board, our tap fees and use charges may not exceed the average of the tap fees and use charges of three nearby communities. This average, which is adjusted annually, has risen by approximately 52% since 2000 and is presently $12,420 per SFE. Generally, we receive 95% of these tap fees after deducting a 12% royalty payable to the State Land Board, which royalty will be subject to increase in certain circumstances. In exchange for developing, operating and maintaining the wastewater system, we receive 100% of wastewater tap fees, presently $4,883 per SFE, and 90% of monthly wastewater usage fees. We also receive wastewater service fees. Annual water service fees per SFE are approximately $578 and annual wastewater service fees per SFE are approximately $404.

We expect to utilize the portion of the tap fees designated by the District as the system development portion to construct the infrastructure necessary to deliver water. We expect ongoing water and wastewater usage fees to cover costs of operating the water and wastewater systems. We will design the water and wastewater delivery systems and contract with third parties for construction of the systems. We plan to utilize a dual distribution system that contains two water pipes, one for potable water that will go directly to a residence and a second for non-potable water that will be used to deliver water for outdoor irrigation use. A third pipe will return the wastewater to our treatment facility where it will be processed to Colorado Department of Public Health and Environment ("CDPHE") standards for irrigation water and then, subject to approval by the CDPHE, returned through the second delivery pipe for outdoor non-potable use.

Under the terms of financing agreements we entered into in connection with the acquisition of our Rangeview water assets, we are obligated to pay the first $36,240,000 of proceeds (after royalty payments) from the sale of Export Water to parties to these agreements. We will make these payments from the water resource portion of the tap fees we receive on the sale of Export Water. These financing agreements will not restrict our use of the system development portion of the tap fees to finance construction of the water and wastewater delivery systems.

Opportunity. The Denver Regional Council of Governments has estimated that between 2000 and 2025 the population in the Denver metropolitan area will increase from 2.4 million to 3.4 million. An independent consultant to the State Land Board and the District has forecast that approximately 50% of new land development in metropolitan Denver will occur in the area south of Interstate-70 and east of Interstate-25, an area of Arapahoe County that includes the Lowry Range, Sky Ranch and surrounding areas. Because of ongoing water shortages, any developer submitting a land use plan to Arapahoe County is required to provide assurance that water will be available to service the development prior to any consideration of a change in land use.

The State Land Board is in the initial stages of developing a plan to solicit requests for proposals (RFPs) to engage a development partner to assist the State Land Board in planning for future development of the Lowry Range. If RFPs are sent as planned later this summer, we expect that the first stage of the long-term development of the Lowry Range could start within three years. We estimate that full development of the Lowry Range will take in excess of 30 years.

We have received confirmation from independent engineering firms that our Rangeview water assets are capable of providing water service to approximately 80,000 SFE units. Our Rangeview water assets have been adjudicated in the Colorado water courts in decrees specifying the amount of water we own or have a right to use and that the water is available for municipal use. We believe, based on these Water Court decrees and the location of our water on or near areas of projected future development, that we have significant opportunities to utilize our water resources.

Paradise Water Supply.

We own conditional water rights in western Colorado that entitle us to build a 70,000 acre foot reservoir to store tributary water on the Colorado River. We will seek to develop and market this water either to the greater Denver metropolitan area or in markets in the downstream states of Nevada, Arizona and California. Our ability to use this asset may be limited, however, because of constraints imposed by the difficulties and costs involved in transporting the water out of the Colorado River watershed to the Denver metropolitan area and because of legal complications in transferring such water to downstream states under the interstate Colorado River Compact.

General.

We were incorporated in Delaware in 1976. Our corporate offices are located at 8451 Delaware Street, Thornton, Colorado 80260. Our telephone number is (303) 292-3456.

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THE OFFERING

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Common stock offered by Pure Cycle	700,000 shares
Common stock offered by selling stockholders	2,505,367 shares

Common stock outstanding before the offering	10,374,957 shares
Common stock to be outstanding after the offering	11,074,954 shares
Use of proceeds of common stock sold by Pure Cycle	To pay outstanding indebtedness, for water system expenditures, and for working capital and other general corporate purposes, including acquisitions and to buy out third party rights to receive proceeds from the sale of Export Water, to the extent such rights are available on acceptable terms.
OTC Bulletin Board and symbol	PCYO
Proposed NASDAQ SmallCap symbol	PCYO

The shares of common stock outstanding before the offering is based on the number of shares of common stock outstanding at February 29, 2004, increased by:

- 645,500 shares of common stock issued upon conversion on April 13, 2004 of 6,455,000 shares of Series D preferred stock,

- 200,000 shares of common stock issued upon conversion on April 13, 2004 of 2,000,000 shares of Series D-1 preferred stock, and

- 475,589 shares of common stock purchasable on exercise of outstanding stock options at an exercise price of $1.80 per share and 908,778 shares of common stock purchasable on exercise of outstanding warrants at an exercise price of $1.80 per share, which shares are being sold in this offering (the "Selling Stockholder Option and Warrant Shares").

and excludes:

- 2,139,411 shares of common stock issuable on the exercise of outstanding options at an exercise price of $1.80 per share,

- an additional 1,585,000 shares of common stock reserved for future issuance under our stock option plan,

- 1,531,506 shares of common stock issuable on the exercise of outstanding warrants at an exercise price of $1.80 per share, and

- 587,778 shares of common stock issuable upon the conversion of outstanding Series A-1 convertible preferred stock at a conversion ratio of .55556 shares of common stock for each share of Series A-1 preferred stock.

The common stock offered by selling stockholders in this offering consists of the Selling Stockholder Option and Warrant Shares and 1,121,000 shares of common stock that are currently owned by selling stockholders (collectively, the "Selling Stockholder Shares").

At February 29, 2004, the Selling Stockholder Option and Warrant Shares were not outstanding, but these options and warrants will be exercised immediately prior to the sale of the shares in this offering. If all of these options and warrants are exercised, we will receive $2,491,860 of gross proceeds. The $856,060 exercise price for the options will be paid in cash and the exercise price for the warrants will be paid $3,026 in cash and $1,632,774 in the form of 4% promissory notes payable to Pure Cycle, secured by the stock issued upon exercise. The notes are required to be paid with the proceeds of the sale of the stock in this offering. If the warrant holders' shares are not sold, we expect that we will foreclose on the promissory notes and cancel the shares.

The information in this prospectus, other than the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, assumes that these options and warrants have been exercised, the Series D and Series D-1 preferred stock have been converted, the common stock issued or issuable on exercise and conversion are outstanding, and the promissory notes payable to Pure Cycle in partial consideration of the exercise price for the warrants have been repaid.

SUMMARY FINANCIAL DATA

The following table shows selected summary financial data for Pure Cycle as of the dates and for the periods indicated. You should read this data in

conjunction with the financial statements and notes included in this prospectus beginning on page F-1.

	SIX MONTHS ENDED		YEAR ENDED	
	FEB. 29, 2004	FEB. 28, 2003	AUGUST 31, 2003	AUGUST 31, 2002
	(UNAUDITED)			
STATEMENT OF OPERATIONS				
Revenues	$ 85,731	$ 103,812	$ 225,432	$ 204,858
Expenses:				
Operating	11,338	10,732	37,496	27,792
General and administrative	219,302	124,556	318,182	221,872
Operating loss	(147,691)	(34,784)	(135,841)	(49,764)
Other expense, net	91,259	92,572	185,212	195,383
Net loss	(238,950)	(127,356)	(321,043)	(245,147)
Basic and diluted net loss per common share	$ (0.03)	$ (0.02)	$ (0.04)	$ (0.03)
Weighted average number of shares of common stock outstanding - basic and diluted	8,056,418	7,843,976	7,843,976	7,843,976

	FEBRUARY 29, 2004	
	ACTUAL	AS ADJUSTED(1)
	(UNAUDITED)	
BALANCE SHEET DATA:		
Cash and cash equivalents.	$ 338,559	$ 8,068,904
Investment in water and systems.	19,410,635	19,410,635
Total assets	20,254,298	27,989,603
Working capital.	327,790	8,058,095
Long-term debt-related parties, including accrued interest	4,976,511	3,867,450
Participating interests in Rangeview water supply.	11,090,630	11,090,630
Stockholders' equity	4,142,507	12,981,873

(1) The "as adjusted" column reflects (a) the exercise of options to purchase 475,589 shares of common stock at an exercise price of $1.80 per share and the exercise of warrants to purchase 908,778 shares of common stock at an exercise price of $1.80 per share, and (b) the sale by Pure Cycle of 700,000 shares of common stock in this offering at an assumed offering price of $10.00 per share, after deducting the estimated underwriting discount and offering expenses, and the application of the net proceeds from the sale of these shares as described under "Use of Proceeds."

RISK FACTORS

INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, BEFORE INVESTING IN OUR COMMON STOCK.

WE ARE DEPENDENT FOR FUTURE REVENUES ON DEVELOPMENT OF THE LOWRY RANGE AND OF THE OTHER AREAS NEAR OUR RANGEVIEW WATER ASSETS THAT ARE POTENTIAL MARKETS FOR OUR EXPORT WATER.

We expect that our principal source of future revenue will be from two contracts that entitle us to provide water and wastewater service in the Lowry Range service area. The timing and amount of these revenues will depend significantly on the development of this area. The land in the Lowry Range is owned by the State Land Board, which is in the early stages of considering various development alternatives, but no timetable exists for development. We are not able to determine the timing of water sales or the timing of development. There can be no assurance that development will occur, or that water sales will occur on acceptable terms or in the amounts or time required for us to support our costs of operation. Because of the prior use of the Lowry Range as a military reservation, environmental clean-up may be required prior to development, including to remove unexploded ordnance. There is often significant delay in adoption of development plans, as the political process involves many constituencies with differing interests. In the event water sales are not forthcoming or development of the Lowry Range is delayed, we may incur additional short or long-term debt obligations or seek to sell additional equity to generate operating capital. These sales of equity may be at prices that are

dilutive to existing investors.

Our operations are significantly affected by the general economic conditions for real estate development and the pace and location of real estate development activities in the greater Denver metropolitan area, most particularly areas such as Sky Ranch which are near to our Rangeview water assets and thus are potential markets for our Export Water. Increases in the number of our water and wastewater connections, our connection fees and our billings and collections will depend on real estate development in this area. We have no ability to control the pace and location of real estate development activities which affect our business.

WE ARE A START-UP BUSINESS AND DO NOT HAVE SIGNIFICANT EXPERIENCE IN THE LARGE-SCALE SALE OF WATER AND OPERATION OF WATER AND WASTEWATER SYSTEMS.

Although we have been in operation since 1976, our expected future operations are significantly different from the businesses in which we have been engaged over most of our past. While we have constructed and are operating one water and wastewater treatment facility on the Lowry Range, that facility serves only one customer and provides revenues of only about $15,000 per month, representing 81% of our total revenues. We do not yet have significant experience in the large-scale sale of water and operation of water and wastewater systems and our revenue growth will depend on our ability to enter into new operating contracts with municipal water districts and developers. Because we have not built a large number of water and wastewater systems, we cannot assure you that the portion of the tap fee revenue that we will utilize for construction of our water delivery system will cover the costs of construction, particularly since a disproportionately greater cost must be paid in the initial stage of construction, and the tap fees are assessed equally at all stages of a development. A significant portion of our marketing and sales effort is spent demonstrating to municipal water districts and developers our operating capabilities and the viability of our water assets, but our inability to point to a history of successful operations may be a competitive disadvantage in obtaining new contracts. In the Sky Ranch Agreements, the developer retained a right to terminate the agreements if it was unable to sell a specified number of lots to homebuilders within 24 months of receipt of required approvals due principally to the homebuilders' concerns over our ability to provide the required water. Our business is subject to the risks

often associated with start-up businesses, and you will be unable to evaluate our operations based on our past operating results.

OUR NET LOSSES MAY CONTINUE AND WE MAY NOT HAVE SUFFICIENT LIQUIDITY TO PURSUE OUR BUSINESS OBJECTIVES.

We have experienced significant net losses and could continue to incur net losses. For the year ended August 31, 2003 and the six months ended February 29, 2004, we had net losses of $321,000 and $238,950, respectively, on revenues of $225,000 and $85,731 in the respective periods. Our cash flow from operations has been insufficient to fund our operations in the past, and we have been required to raise debt and equity capital from related parties to remain in operation. Since 1998, we have raised $1,310,000 through the issuance of 776,133 shares of common stock to support our operations. Our ability to fund our operational needs and meet our business objectives will depend on our ability to generate cash from future operations. If our future cash flow from operations and other capital resources are insufficient 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, grant additional priority rights to revenues from the sale of Export Water, or seek to obtain additional debt or equity capital, which may not be available on acceptable terms, or at all.

OBLIGATIONS UNDER THE COMMERCIALIZATION AGREEMENT AND OTHER AGREEMENTS WILL DELAY OUR ABILITY TO BENEFIT FROM INCREASED REVENUES.

We have entered into financing agreements with investors and in settlement of controversies over our Rangeview water assets that obligate us to pay to others the first $36,240,000 of certain revenues we receive from our sale of Export Water. Under the provisions of one of these financing agreements, called the Commercialization Agreement, we are required to pay to investors in the Rangeview project signatory to such agreement the first $31,807,000 from the water resource component of the tap fees we receive from the sale or other disposition of Export Water. We are obligated to pay the next $4,000,000 of such revenues to another investor, and the next $433,000 in such revenues to the holders of our Series B Preferred Stock. These obligations, along with other indebtedness, pose risks to the holders of our common stock, including the risks that:

- A substantial portion of our cash flow from the sale of Export Water for a significant period of time will be dedicated to the payment of obligations to investors;

- These obligations may impair our ability to obtain external financing

in the future, including for capital expenditures required for growth;

- The obligation to pay out these amounts may make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures; and

- Payment of these amounts will limit the amount of cash we will have available to invest in acquisitions and other growth opportunities.

THE RATES WE ARE ALLOWED TO CHARGE CUSTOMERS ARE LIMITED BY THE DISTRICT'S CONTRACT WITH THE STATE LAND BOARD AND OUR CONTRACT WITH THE DISTRICT AND MAY BE INSUFFICIENT TO COVER OUR COSTS OF CONSTRUCTION AND OPERATION.

The price we can charge for our water and wastewater services are subject to pricing regulations set in the District's contract with the State Land Board and our contract with the District. Both the tap fees and our usage rates and charges are based on the average of the rates of three surrounding quasi-governmental water providers. We survey annually the tap fees and rates and charges from the water providers that comprise our rate base group and set our tap fees and rates and charges based on the

average of those charged by this group. Our costs associated with the construction of water delivery systems and the production, treatment and delivery of our water are subject to market conditions and other factors, which may increase at a significantly greater rate than the prices charged by our rate base water providers. Factors beyond our control and which cannot be predicted, such as drought, water contamination and severe weather conditions, like tornadoes and floods, may result in additional labor and material costs that may not be recoverable under our operations and maintenance contracts, creating additional differences from the costs of our rate base water providers. Increased customer demand can also increase the overall cost of our operations. If the costs for construction and operation of our water services, including the cost of extracting our groundwater, exceed our revenues, we may petition the State Land Board for rate increases. We cannot assure that the State Land Board would grant us approval to increase rates beyond the average of the rate base water providers. Our profitability could be negatively impacted if we experience an imbalance of costs and revenues and are not successful in receiving approval for rate increases.

WE ARE LIKELY TO BE INVOLVED IN ON-GOING NEGOTIATIONS WITH THE STATE LAND BOARD TO CLARIFY OUR RIGHTS AND OBLIGATIONS UNDER CONTRACTS AS THEY RELATE TO SPECIFIC TRANSACTIONS WE ENTER INTO OR TO DEAL WITH ADDITIONAL OPPORTUNITIES, AND WE MAY BE SUBJECT TO ADVERSE DETERMINATIONS IF WE ARE REQUIRED TO ARBITRATE THESE MATTERS.

Our rights and obligations to our Rangeview water assets derive principally from an Amended and Restated Lease (the "Lease") between the State Land Board and Rangeview entered into in 1996 prior to any development of the Lowry Range or of areas outside the Lowry Range that utilize our Export Water. The terms of this agreement did not anticipate the specific circumstances of the development that have arisen and may not clearly delineate rights and responsibilities for the forms of transactions that may arise in the future as we enter into and negotiate agreements for sale of water. We anticipate that we will engage in negotiations with the State Land Board from time to time to clarify the applicability of contract terms to circumstances that were not anticipated at the time the agreements were entered into. Certain of these provisions may be material, and a determination, by an arbitrator or otherwise, of positions that are not favorable to us could have a material adverse effect on our financial results. In addition, we discuss periodically with the State Land Board opportunities for water utilization that were not available at the time of the Lease, which opportunities could be incorporated into the Lease. We cannot assure you that we will pursue additional opportunities or that such activities will be successful.

OUR CAPITAL RESOURCES MAY RESTRICT OUR ABILITY TO OPERATE AND EXPAND OUR BUSINESS.

As of February 29, 2004, we had cash and cash equivalents of $338,599. We have not been able to secure lines of credit to enable us to expand our operations. We may be unable to establish credit facilities or execute financing alternatives on terms that we find acceptable.

In order to obtain contracts, we must be able to demonstrate the ability to fund the significant investments required to build water delivery and treatment facilities. We may obtain funds for these obligations from the proceeds of this offering or the sale of stock and other equity related securities, our cash flow from operations, contributions by developers and the use of both short and long-term debt. If we are unable to establish lines of credit, or if we are unable to secure additional financing sources, our capital spending would be reduced or delayed, which would limit our growth.

WE ONLY HAVE THREE EMPLOYEES AND MAY NOT BE ABLE TO MANAGE THE INCREASING DEMANDS OF OUR EXPANDING OPERATIONS.

We expect that our activities relating to the Sky Ranch agreement will significantly expand our business, and we are actively pursuing additional development opportunities in areas near Sky Ranch, as well as acquisition opportunities to continue to grow our operations. We currently have only three

employees to administer our existing assets, interface with applicable governmental bodies and investors, 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 Harding, our President, and Thomas P. Clark, our Chief Executive Officer. Loss of either of these employees would cause a significant interruption of our operations. The success of our future business development and ability to capitalize on growth opportunities depends on our ability to attract and retain additional experienced and qualified persons to operate and manage our business. State regulations set the training, experience and qualification standards required for our employees to operate specific water and wastewater facilities. Failure to find state-certified and qualified employees to support the operation of our facilities could put us at risk, among other things, for operational errors at the facilities, for improper billing and collection processes, and for loss of contracts and revenues. We cannot assure you that we can successfully manage our assets and our growth.

OUR BUSINESS IS SUBJECT TO GOVERNMENTAL REGULATION AND PERMITTING REQUIREMENTS. WE MAY BE ADVERSELY AFFECTED BY ANY FUTURE DECISION BY THE COLORADO PUBLIC UTILITIES COMMISSION TO REGULATE US AS A PUBLIC UTILITY AND TO IMPOSE REGULATION.

The Colorado Public Utilities Commission (CPUC) regulates investor-owned water companies that hold themselves out to the public as serving, or ready to serve, all of the public in a service area. The CPUC regulates many aspects of public utilities' operations, including the siting and construction of facilities, establishing water rates and fees, initiating inspections, enforcement and compliance activities and assisting consumers with complaints. Although we act as a service provider under contracts with quasi-municipal metropolitan districts that are exempt by statute from regulation by the CPUC, the CPUC could decide to regulate us as a public utility. If this were to occur, we might incur significant expense challenging the CPUC's assertion of authority, 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.

WATER IS A DEPLETING RESOURCE AND WE MAY NOT BE ABLE TO PROVIDE AN ADEQUATE SUPPLY OF WATER TO OUR CUSTOMERS.

We obtain our water from various sources. The preferred source is pumping tributary groundwater from the alluvial aquifer beneath or connected with the surface streams located on the Lowry Range. Although a relatively small portion of our water supply comes from these renewable surface water supplies, the volume of water available through surface water rights are subject to a priority system which, particularly in times of drought, may diminish the supply of available water. A significant portion of our water supply comes from nontributary groundwater that can only be withdrawn at an average rate of 1% per year so that the resource, which is thought to be non-renewable, will last for 100 years. Water court decrees are based on engineering estimates of the amount of water contained in the aquifer. Actual amounts of water may vary from these estimates as the aquifer is developed. In addition, frequently, after a certain number of years, it becomes more difficult to extract the water from the aquifer, resulting in higher costs of extraction. Our obligations to deliver water are fixed obligations, and are not conditioned on the continuing availability of water from our existing supplies. If our water supply is depleted, we would be obligated to acquire water elsewhere in order to meet our contractual obligations, and the cost of that replacement water could exceed the amount we are permitted to charge to water users. We will seek to recycle and reuse our existing water assets and to replenish and increase our water rights through acquisition of additional tributary and nontributary water rights, but we cannot assure you that we will continue to have sufficient supplies of water in the future to meet our customers' needs and to support continued growth.

OUR WATER RIGHTS MAY BE CHALLENGED BASED ON CHANGES IN WATER LAW AND POLICY.

Our rights to our water assets have been adjudicated by Colorado water courts, but it is not possible to obtain title insurance on water rights. We believe that adjudicated water rights constitute property interests that are not subject to subsequent challenge. However, the evolving nature of water law in Colorado and the political sensitivity and importance of water as a scarce commodity could lead to challenges to our adjudicated water rights. We cannot assure you that we will be successful in defeating all such challenges.

THERE ARE MANY OBSTACLES TO OUR ABILITY TO REALIZE ON OUR PARADISE WATER ASSETS.

We currently earn no revenues from our Paradise water assets, which as of February 29, 2004 are recorded at $5,498,124. Our ability to convert our Paradise water supply into an income generating asset is limited. While there is demand for water in the downstream states of California, Nevada and Arizona, Colorado law prohibits the export of water out of state without obtaining a Water Court decree. To issue a decree the Water Court must find that the export is not in violation of the provisions of interstate compacts and does not prevent Colorado from complying with its interstate compact obligations. In addition, there are significant difficulties and costs involved in transporting the water out of the Colorado River watershed to the Denver metropolitan area. As part of our Water Court decree for the Paradise water, we are permitted to construct a storage facility on the Colorado River. However, due to the strict regulatory requirements for constructing an on-channel reservoir, completing the conditional storage right at its decreed location would also be difficult. Our Paradise water right is also conditioned on a Finding of Reasonable Diligence from the water court every six years. To arrive at that finding, a water court must determine that we are continuing diligently to pursue the actual use of the water right by us or by some third party who has a contractual commitment for its use. If the water court is unable to make such a finding, our right to the Paradise water may be lost. The next such funding will be required to be made in 2005. To date, the required finding has been made at each six-year period. If challenged, we intend to vigorously defend our Paradise asset. We cannot assure you that we will ever be able to make use of this asset or sell the water profitably.

CONFLICTS OF INTEREST MAY ARISE RELATING TO THE OPERATION OF THE RANGEVIEW METROPOLITAN DISTRICT.

Our officers and employees constitute a majority of the directors of the Rangeview Metropolitan District and Pure Cycle, along with our officers and employees and one unrelated individual, own as tenants in common the 40 acres that form the District. We have made loans to the District to fund its operations. At February 29, 2004, total principal and interest owed to us by the District was approximately $400,000. The District is a party to our agreements with the State Land Board and receives fees of 5% of the revenues from the sale of water on the Lowry Range, and will hold title to the water distribution system at the Sky Ranch development. 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. Officers and directors of Pure Cycle that serve as directors of the Rangeview Metropolitan District will not benefit from the fees to be paid to the District other than nominal director fees. We have received benefits from our activities undertaken in conjunction with the District, but conflicts may arise between our interests and those of the District, and with our officers who are acting in dual capacities in negotiating contracts to which both we and the District are parties. We expect that the District will expand when more properties are developed and become part of the District, and our officers acting as directors of the District will have fiduciary obligations to those other constituents. There can be no assurance that all conflicts will be resolved in the best interests of Pure Cycle and its stockholders. In addition, other landowners coming into the District will be eligible to

vote and to serve as directors of the District. There can be no assurances that our officers and employees will remain as directors of the District or that the actions of a subsequently elected board would not have an adverse impact on our operations.

WEATHER CONDITIONS CAN IMPACT OUR FINANCIAL RESULTS AND OPERATIONS.

Rainfall and weather conditions may affect our operations, with most water consumption occurring during the summer months when weather tends to be hot and dry. Drought or unusually wet conditions may also adversely impact our results of operations. During a drought, we may experience lower revenues, due to consumer conservation efforts and regulatory mandates. Since a fairly high percentage of our water is used outside our customers' homes, unusually wet conditions could result in decreased customer demand and lower revenues. In addition, heavy rainfall may limit our ability to perform certain work such as pipeline maintenance, manhole rehabilitation and other outdoor services.

WE ARE REQUIRED TO MAINTAIN STRINGENT WATER QUALITY STANDARDS AND ARE SUBJECT TO REGULATORY AND ENVIRONMENTAL RISKS.

We must provide water that meets all federal and state regulatory water quality standards and operate our water and wastewater facilities in accordance with the standards. We face contamination and pollution issues regarding our water supplies. Improved detection technology, increasingly stringent regulatory requirements, and heightened consumer awareness of water quality issues contribute to an environment of increased focus on water quality. In contrast with other providers in Colorado, we are combining the water delivery and wastewater treatment processes, which may introduce technical treatment issues that make compliance with water quality standards more difficult. We plan to

return effluent wastewater for irrigation and other nonpotable uses, although the Colorado Department of Public Health and Environment is currently evaluating the use of effluent wastewater for residential irrigation. We cannot assure you that we will be able in the future to reduce the amounts of contaminants in our water to acceptable levels. In addition, the standards that we must meet are constantly changing and becoming more stringent. For example, in February 2002, the U.S. Environmental Protection Agency lowered the arsenic standard in drinking water from 50 parts per billion to 10 parts per billion. Future changes in regulations governing the supply of drinking water and treatment of wastewater may have a material adverse impact on our financial results.

We handle certain hazardous materials at our water treatment facilities, primarily sodium hypochlorite. Any failure of our operation of the facilities in the future, including sewage spills, noncompliance with water quality standards, hazardous materials leaks and spills, and similar events could expose us to environmental liabilities, claims and litigation costs. We cannot assure you that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations by increasing our costs for damages and cleanup.

WE HAVE ENGAGED IN TRANSACTIONS WITH RELATED PARTIES.

We have engaged in transactions, particularly the issuance of debt and equity securities, with related parties, most significantly our chief executive officer, Mr. Thomas P. Clark. Mr. Clark beneficially owns approximately 31% of our common stock. In addition, we have outstanding borrowings at February 29, 2004 totaling $546,163 from Mr. Clark and $402,104 from other stockholders who hold 10% or more of our common stock, and have issued warrants to certain investors in connection with these loans. Those related party lenders have been willing to forgo periodic payments of principal and interest on such debt. Many of the Selling Stockholders are related parties that have engaged in transactions with Pure Cycle. There can be no assurance that our equity and debt issuances or other related party transactions have been on arms length terms.

OUR CONTRACTS FOR THE CONSTRUCTION OF WATER AND WASTEWATER PROJECTS MAY EXPOSE US TO CERTAIN COMPLETION AND PERFORMANCE RISKS.

We will 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 the water delivery system.

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 are not 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, and 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 where required.

We may operate engineering and construction activities for water and wastewater facilities where design, construction or system failures could result

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

OUR CONTRACT TO PROVIDE WATER SERVICES TO THE LOWRY RANGE TERMINATES IN 2081.

Our contract with the Rangeview Metropolitan District grants us the exclusive right to use water underlying the Lowry Range and to provide water to customers on the Lowry Range until 2081, at which time ownership and control of the water delivery system (other than the wastewater system) reverts to the State Land Board and our ability to use such water to serve customers on the Lowry Range will cease. While we may negotiate a new agreement to operate the water assets, the selection process will be competitive and there can be no assurance that we would continue as operator. In such event, our receipt of the monthly water usage fees will terminate with respect to all customers located on the Lowry Range.

We estimate that our income from Lowry Range customers will represent a significant component of our overall revenues at such date, so the loss of such revenues will be material.

WE WILL HAVE BROAD DISCRETION IN ALLOCATION OF NET PROCEEDS TO US IN THIS OFFERING.

Approximately $4,017,000, or 64%, of the estimated net proceeds to us in this offering has been allocated to working capital and general corporate purposes. Accordingly, our management will have broad discretion as to the application of these proceeds. We may use a portion of the proceeds allocated to working capital for acquisitions and to purchase contract rights under the Commercialization Agreement. We currently have no agreement, arrangement or understanding with respect to any acquisition or purchase under the Commercialization Agreement.

THE MARKET PRICE OF OUR COMMON STOCK COULD BE VOLATILE.

A number of factors could cause the market price of our common stock to fluctuate significantly, including:

- Small number of shares of our common stock available for purchase or sale in the public markets;
- Large number of shares of our common stock held by insiders and related parties;
- Our announcement of significant new development agreements, acquisitions, strategic partnerships or capital commitments.
- Changes in general conditions or trends in the water industry;
- Announcements regarding development of the Lowry Range;
- Changes in regulatory guidelines that restrict our operations, including the rates we can charge our customers;
- Adverse or unfavorable publicity regarding us or our services;
- Additional issuances of debt or equity; and
- Natural disasters, terrorist attacks or acts of war.

OUR REVERSE STOCK SPLIT MAY CONTRIBUTE TO GREATER VOLATILITY IN OUR STOCK PRICE.

On April 26, 2004, we effected a 1-for-10 reverse split of our common stock with the goal of improving the liquidity of our stock by increasing the stock price and thereby increasing interest of a broader range of investors in our stock. While the initial post-split stock price has been proportionate to the reduction in the number of shares of common stock outstanding before the reverse stock split, if the market price of the common stock later declines, the percentage decline may be greater than would occur in the absence of the reverse stock split and the market price per share of our common stock could be more volatile as a result of the stock split. We cannot assure you that even after the reverse stock split, our share price will attract new investors or that our share price will satisfy the investing guidelines of institutional investors. As a result, the trading liquidity of the common stock may not necessarily improve.

FUTURE SALES OF OUR COMMON STOCK MAY CAUSE OUR STOCK PRICE TO DECLINE.

At the conclusion of this offering, we will have outstanding options and warrants to purchase 3,670,917 shares of common stock with an exercise price of $1.80 per share, 105,800 shares of Series A-1 preferred stock that are

convertible into 587,778 shares of common stock and a stock option plan that

permits the issuance of options to purchase an additional 1,585,000 shares of common stock. We have been informed that a number of warrantholders intend to exercise their warrants following this offering. Such exercises are likely to be on a net or cashless exercise basis, resulting in the issuance of shares that may not be subject to holding period restrictions on transfer under Rule 144 of the Securities Act. Holders of 3,128,706 shares of common stock, options to purchase 2,124,411 shares, warrants to purchase 1,320,112 shares and Series A-1 preferred stock that converts into 559,999 shares of common stock have agreed with the underwriters not to sell any shares for 180 days following completion of this offering. Sales of substantial amounts of common stock by our stockholders, including shares issued upon the exercise of outstanding options and warrants, or even the potential for such sales, may have a depressive effect on the market price of our common stock and could impair our ability to raise capital through the sale of our equity securities.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. The words "anticipate," "believe," "estimate," "expect," "plan," "intend" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. We cannot assure you that any of our expectations will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, without limitation, the timing of development of the areas where we are selling our water, the market price of water, changes in applicable statutory and regulatory requirements, uncertainties in the estimation of water available under decrees, costs of delivery of water, uncertainties in the estimation of revenues and costs of construction projects, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, delays in anticipated permit and construction dates, environmental risks, the results of financing efforts and the ability to meet capital requirements, and general economic conditions.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock we are offering will be approximately $6,347,500, assuming a stock price of $10.00 per share in this offering. If the underwriters fully exercise their over-allotment option, the net proceeds of the shares we sell will be approximately $11,000,000. "Net proceeds" is what we expect to receive after paying the underwriting discount and other expenses of the offering.

The following table summarizes the use of the net proceeds that we will receive from this offering:

<TABLE>
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<S>	<C>	<C>
Repayment of outstanding debt to related parties	$1,109,061	18%
Water system expenditures	$1,200,000	19%
Working capital and general corporate purposes .	$4,017,189	64%
Total		100%

</TABLE>

$512,439 of the debt to be repaid bears interest at prime plus 2% (6% at May 27, 2004) and $596,622 bears interest at 10.25%. All debt to be repaid matures in August 2007. One of the creditors to be repaid is the Harrison Augur Money Purchase Plan, which is affiliated with one of our directors. Net proceeds payable to this creditor will be $86,513. The remaining holders of this indebtedness are all selling stockholders: Apex Investment Fund II, L.P., Proactive Partners, L.P., Environmental Venture Fund Liquidating Trust, Environmental Private Equity Fund II, L.P., The Productivity Fund II, L.P., and Gregory M. Morey. Accordingly, these persons will also receive proceeds from the sale of shares in the offering.

The net proceeds allocated to water system expenditures will be used to drill wells and build the infrastructure needed to provide water services to Sky Ranch.

We anticipate that a portion of the proceeds allocated to working capital and general corporate purposes will be used for acquisition of water rights and acquisition of contractual rights to receive payments under the

Commercialization Agreement, in each case if and to the extent agreements can be reached. Amounts to be utilized for these purposes will depend on the opportunities that arise, but we do not expect to spend more than $5,000,000 on acquisition of water rights or more than $3,600,000 on purchase of contract rights under the Commercialization Agreement. We are not currently in discussions regarding any specific acquisition of water rights.

We intend following the completion of this offering to approach certain of the persons who have contractual rights to receive payments under the Commercialization Agreement and offer to buy out a portion of those contractual rights. We have had preliminary discussions regarding such purchases with some of the parties to the Commercialization Agreement, but no firm commitments have been made regarding any such sale. Many of the selling stockholders that are exercising warrants are parties to the Commercialization Agreement. Accordingly, if we purchase their contract rights, they will receive additional proceeds from this offering. No assurance can be given that any of the parties to the Commercialization Agreement will be willing to sell their contract rights at all or on terms that would be acceptable to us.

While the amounts indicated above reflect what we currently expect to spend on these matters, opportunities may arise that cause us to change the allocation of proceeds among the categories described. Prior to using the net proceeds, we plan to invest the net proceeds in bank deposits or short-term interest-bearing investment grade securities.

Many of the selling stockholders are exercising options or warrants immediately prior to the completion of this offering to obtain the shares to be sold in this offering. In connection with this exercise, we will receive $2,491,860, $1,632,774 of which will be paid in the form of promissory notes secured by the shares we issue. The selling stockholders will pay the promissory notes with the proceeds of this offering. We are paying the expenses, other than underwriting discounts and expenses of separate counsel for the selling stockholders, relating to the sale of the selling stockholder shares.

CAPITALIZATION

The following table sets forth:

- our actual cash and cash equivalents and capitalization as of February 29, 2004, adjusted to reflect the reverse stock split; and

- our cash and cash equivalents and capitalization as of February 29, 2004, as adjusted to reflect (i) the increase in our authorized shares of common stock, (ii) the exercise by the Selling Stockholders of certain options and warrants and the issuance of the 1,384,367 underlying shares of common stock, and our receipt of $2,491,860 of proceeds upon such exercise, (iii) the conversion of the Series D preferred stock and Series D-1 preferred stock into 845,500 shares of common stock, and (iv) completion of the offering of 700,000 shares of our common stock at an assumed public offering price of $10.00 per share and the use of net proceeds as described under "Use of Proceeds." The "As Adjusted" column assumes no acquisitions of water rights or of contractual rights under the Commercialization Agreement.

<TABLE>
<CAPTION>

	AS OF FEBRUARY 29, 2004	
	ACTUAL	AS ADJUSTED
<S>	<C>	<C>
Cash and cash equivalents	$ 338,599	8,068,904
Current liabilities	44,650	44,650
Long-term debt - related parties, including accrued interest	4,976,511	3,867,450
Participating interests in Rangeview water rights	11,090,630	11,090,630
Preferred stock, par value $.001 per share; authorized - 25,000,000 shares:		
Series A-1 - 1,058,000 shares issued and outstanding actual and as adjusted	1,058	1,058
Series B - 432,514 shares issued and		

outstanding actual and as adjusted	433	433
Series D - 6,455,000 shares issued and outstanding actual, no shares issued and outstanding as adjusted	6,455	--
Series D-1 - 2,000,000 shares issued and outstanding actual, no shares issued and outstanding as adjusted	2,000	--
Common stock, par value 1/3 of $.01 per share; authorized - 135,000,000 shares actual, 225,000,000 shares as adjusted; 8,145,087 shares issued and outstanding actual, 11,074,954 shares issued and outstanding as adjusted	27,123	36,880
Additional paid in capital	25,511,992	34,350,056
Accumulated deficit	(21,406,554)	(21,406,554)
Total stockholders' equity	4,142,507	12,981,873
Total noncurrent liabilities and stockholders' equity	20,209,648	27,939,953

</TABLE>

MARKET PRICE OF AND DIVIDENDS FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol "PCYO." We have applied for listing of our common stock on the NASDAQ Small Cap Market under the symbol "". The following table shows, for the fiscal periods indicated, the high and low sales prices for our common stock as reported by the OTC Bulletin Board.

<TABLE>
<CAPTION>

	LOW	HIGH
<S>	<C>	<C>
FISCAL 2004		
First Quarter	$2.00	$ 5.10
Second Quarter.	4.00	13.00
Third Quarter	6.00	10.60
Fourth Quarter (through June 3, 2004)	9.35	10.15
FISCAL 2003		
First Quarter	$ .90	$ 1.80
Second Quarter.	1.00	2.80
Third Quarter	1.60	2.70
Fourth Quarter.	1.70	3.00
FISCAL 2002		
First Quarter	$ .80	$ 1.50
Second Quarter.	.60	1.20
Third Quarter	.60	2.10
Fourth Quarter.	.90	1.90

</TABLE>

On June 2, 2004, the last reported sale price of our common stock on the OTC Bulletin Board was $9.95 per share. As of May 31, 2004, there were approximately 3,751 holders of record of our common stock.

We have never paid any dividends on our common stock and expect for the foreseeable future to retain all of our earnings from operations 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 A-1 Preferred Stock and Series B Preferred Stock prohibit the payment of dividends on common stock unless all dividends accrued on such series of preferred stock have been paid. See "Description of Securities -- Series A-1 Convertible Preferred Stock" and "-- Series B Preferred Stock."

SELECTED FINANCIAL DATA

This section presents our selected historical financial data. You should read carefully the financial statements included in this prospectus, including the notes to the financial statements. The selected data in this section is not intended to replace the financial statements.

The following tables as of August 31, 2003 and 2002 and for each of the years in the two year period ended August 31, 2003, and as of February 29, 2004 and February 28, 2003 and for the six month periods ended February 29, 2004 and February 28, 2003, present selected financial information of the Company which has been derived from our financial statements included elsewhere in this prospectus. The financial statements as of August 31, 2003 and 2002 and for the two years ended August 31, 2003 have been audited by KPMG LLP, our independent auditors. The consolidated balance sheet data at February 29, 2004 and February 28, 2003 and the consolidated statement of operations data for the six months ended February 29, 2004 and February 28, 2003 are derived from unaudited financial statements which have been prepared on the same basis as the audited annual financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated position at such dates and the operating results for such periods. Operating results for the six months ended February 29, 2004 are not necessarily indicative of the results that may be expected for the year ending August 31, 2004. This selected financial data should be read in conjunction with the consolidated financial statements of Pure Cycle and notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this prospectus.

<TABLE>
<CAPTION>

	SIX MONTHS ENDED		YEAR ENDED	
	FEB. 29, 2004	FEB. 28, 2003	AUGUST 31, 2003	AUGUST 31, 2002
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS				
Revenues	$ 85,731	$ 103,812	$ 225,432	$ 204,858
Expenses:				
Operating	11,338	10,732	37,496	27,792
General and administrative	219,302	124,556	318,182	221,872
Operating loss	(147,691)	(34,784)	(135,841)	(49,764)
Other expense, net	91,259	92,572	185,212	195,383
Net loss	(238,950)	(127,356)	(321,043)	(245,147)
Basic and diluted net loss per common share	$ (0.03)	$ (0.02)	$ (0.04)	$ (0.03)
Weighted average number of shares of common stock outstanding - basic and diluted	8,056,418	7,843,976	7,843,976	7,843,976

</TABLE>

<TABLE>
<CAPTION>

	FEBRUARY 29, 2004	AUGUST 31, 2003	AUGUST 31, 2002
<S>	<C>	<C>	<C>
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 338,559	$ 525,780	$ 287,720
Investment in water and systems, net.	19,410,635	19,342,994	19,201,683
Total assets.	20,254,298	20,413,404	20,028,279
Working capital	327,790	541,695	316,760
Long-term debt-related parties, including accrued interest.	4,976,511	4,889,545	4,713,270
Participating interests in Rangeview water supply.	11,090,630	11,090,630	11,090,630
Stockholders' equity.	4,142,507	4,381,457	4,202,500

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with the financial statements and other financial information included in this prospectus. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in the forward-looking statements. Please see "Forward-Looking Statements" elsewhere in this prospectus.

GENERAL

We own or have rights to use significant water assets which we have begun to utilize to provide water and wastewater services to customers located in the Denver, Colorado metropolitan area near our principal water assets. We will operate water and wastewater systems to deliver and treat the water we provide. Our services will include designing, constructing, operating and maintaining systems to service our customers.

We have exclusive access to approximately 29,000 acre feet per year of water from, and the exclusive right to provide water and wastewater services to, 24,000 acres of primarily undeveloped land in eastern Colorado known as the Lowry Range. The Lowry Range is located in Arapahoe County approximately 15 miles southeast of Denver and 12 miles south of the Denver International Airport. Of the approximately 29,000 acre feet of water to which we have access, 17,500 acre feet are available to us for use on the Lowry Range. We own the remaining 11,650 acre feet and can "export" it from the Lowry Range to supply water to communities and developers in need of additional water supplies. There are no legal limitations on the locations outside of the Lowry Range in which we can sell Export Water, except that, if we sell Export Water for use outside of Arapahoe County, we are required to offer to Arapahoe County the right to buy such water at the same rates. We acquired these rights and the Export Water in 1996 when we entered into an agreement with the State Land Board, which owns the Lowry Range, and 85-year agreements with the District.

The 17,500 acre feet of water designated for use within the Lowry Range service area is capable of providing water service to approximately 47,000 SFE units. We will design, construct, operate and maintain the water and wastewater systems on the Lowry Range service area on behalf of the District and the State Land Board. The District will own all water and wastewater facilities constructed to serve customers in the Lowry Range service area during our contract service period. At the end of our contract service period, ownership of the water facilities will revert to the State Land Board.

Our annual entitlements to 11,650 acre feet of surface water and groundwater on and beneath the Lowry Range service area can be developed for "export" off the property to service approximately 32,000 SFE equivalent customers outside of the Lowry Range service area. We will design, construct, operate and maintain facilities for water and/or wastewater service for customers located off the Lowry Range service area and we will own these facilities.

Water and/or wastewater service, whether to customers located in the Lowry Range service area or off the Lowry Range service area, is subject to individual water and wastewater service agreements. We will negotiate individual service agreements with developers and/or homebuilders to provide water and wastewater service. Our service contracts will outline our obligations to construct certain facilities necessary to develop and treat water and/or wastewater, including the timing of installation of the facilities, capacities of the systems, and where the services will be provided. Developers and/or homebuilders are required to purchase water and/or wastewater taps from us in exchange for our obligation to construct the water and/or wastewater facilities.

Revenues we earn from providing water and/or wastewater service are divided into two components: one-time tap fees, which are generally paid by the developer, and service charges, which are monthly charges based on metered water delivery or wastewater usage. Water tap fees are further divided into two components: system development fees, which are used to construct facilities necessary to develop and treat water and/or wastewater; and water resource fees, which are used to defray the acquisition costs of the water rights. We are generally required to use the water resource portion of the tap fees received from water exported off the Lowry Range service area to repay investors. Under the Commercialization Agreement that we entered into in conjunction with our agreement to obtain our Rangeview water assets, we are obligated to pay investors that are parties to the Commercialization Agreement the first $31,807,000 from the water resource fees we receive from the sale of the Export Water. In another agreement (the "LCH Agreement"), we agreed to pay the next $4,000,000 of these revenues to another investor. Under the terms of our certificate of designations for the Series B preferred stock, we are obligated to pay the next $433,000 of these revenues to the holders of our Series B preferred stock (collectively, the Commercialization Agreement, the LCH Agreement and the Series B preferred stock are referred to as the "Financing Agreements"). We will retain 100% of the water resource fees we receive in excess of $36,240,000 from tap fees we receive from sale of Export Water, to the extent such fees are not required to be used to defray infrastructure costs.

In agreements marketing our Export Water, developers that own rights to groundwater underlying their property may choose to dedicate the water to us for service to their properties, in exchange for credit against a portion of their water resource fees. Such dedicated water would not be subject to obligations under any Financing Agreements. Similarly, water resource fees received from the sale of taps to customers located in the Lowry Range service area are not subject to obligations under any Financing Agreements.

Due to the continuing growth of the Denver metropolitan region and the

limited availability of new water supplies, many metropolitan planning agencies are requiring property developers to first demonstrate adequate water availability prior to any consideration for zoning requests for property development. As a result, we believe we are well positioned to market and sell our water and wastewater services to developers and home builders seeking to develop new communities both within the Lowry Range service area as well as in other areas in the Denver metropolitan region.

We also own conditional water rights in western Colorado enabling us to build a 70,000 acre-foot reservoir to store tributary water on the Colorado River, a right-of-way permit from the U.S. Bureau of Land Management for property at the dam and reservoir site, and four tributary water wells with a theoretical capacity to produce approximately 56,000 acre feet of water annually (collectively known as the Paradise Water Supply). Although we will seek to utilize the Paradise Water Supply to deliver water to customers located in the Denver metropolitan area or to customers in the downstream states of Nevada, Arizona and California, legal issues relating to interstate water transfers and inter-basin water transfers make the short-term realization on these assets unlikely.

The State Land Board is in the initial stages of developing a plan to solicit requests for proposals this summer to engage a development partner to assist in the planning for future development of the Lowry Range. We are not able to determine the timing of development of property in and around the Lowry Range service area, although residential, commercial and industrial development is under way outside of the Lowry Range service area along its southern, western and northern borders, and we anticipate that initial development of Sky Ranch will begin shortly. Water sales will only occur after development has commenced. We cannot assure you regarding the pace of development or that water sales can be made on terms acceptable to us. In the event development of the property within the Lowry Range service area or of Sky Ranch and surrounding areas is delayed, we may be required to incur additional short or long-term debt obligations or seek to sell equity services to generate operating capital.

Critical Accounting Policies

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

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

Revenue Recognition

For customers located on the Lowry Range service area, the District will sell the taps and contract with us to construct the water delivery infrastructure. We will recognize revenues relating to tap fees on the Lowry Range service area as construction project income using the percentage-of-completion method, measured by the contract costs incurred to date as a percentage of the estimated total contract costs. Since we do not own the facilities constructed for customers located in the Lowry Range service area, we believe the treatment of these revenues as construction project income is the most correct accounting methodology. Contract costs include all direct material, labor and equipment costs and those indirect costs related to contract performance, such as indirect labor and supplies costs. If the construction project revenue is not fixed, we estimate revenues that are most likely to occur. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Billings in excess of costs and estimated earnings represent payments received on construction projects for which the work has not been completed. These amounts, if any, are recognized as construction progresses in accordance with the percentage-of-completion method.

We will recognize revenues from the sale of taps relating to properties located off the Lowry Range service area, and related costs of providing water access, as water service is made available to the property under the tap fee agreement.

We recognize water and wastewater service revenues as services are performed, which are based upon metered water deliveries to customers or a flat

fee per SFE. We recognize costs of delivering water and processing wastewater as incurred.

Impairment of Water Assets and Other Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to future undiscounted net cash flows we expect to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell. We believe there were no impairments in the carrying amounts of our investments in water and water systems at February 29, 2004.

Depletion and Depreciation

We deplete our water assets on the basis of units produced divided by the total volume of water adjudicated in the water decrees. Water and wastewater facilities we own are depreciated on a straight line basis over their estimated useful lives.

Accounting for Participating Interests

The balance sheet liability captioned "participating interests in Rangeview water supply" represents an obligation which arose under the Commercialization Agreement. We recorded a liability of $11.1 million, which represents the cash we received and applied to the purchase of the Rangeview water assets. The remainder of the participating interest of $20.7 million represents a contingent return to the financing investors, Series A-1 preferred stockholders, and the sellers of the Rangeview water assets that are parties to the Commercialization Agreement. These amounts, totaling $31.8 million, will only be payable from the water resource portion of the tap fees we receive from the sale of Export Water. As we recognize revenues from the sale of Export Water to make payments to investors, we will allocate a ratable percentage of the repayment to the principal portion of the participating interest represented by the $11.1 million (i.e., 35%), and the balance to the expense portion, $20.7 million (i.e., 65%), as amounts are payable. The portion allocated to the principal portion will be recorded as a reduction in participating interest in Rangeview water supply.

Royalty and other obligations

Pursuant to our service agreements, royalties we incur relating to gross revenues received will be expensed in the same period that the revenue is recognized.

Income taxes

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

Results of Operations

Year Ended August 31, 2003 Compared with Year Ended August 31, 2002

During fiscal 2003, we delivered approximately 47.3 million gallons of water generating water usage revenues of $156,217 from the sale of water to customers within the Lowry Range service area, compared to the delivery of 54.5 million gallons of water generating revenues of $156,026 for fiscal 2002. Our water service charges are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. The following table outlines our tiered pricing structure:

<TABLE>
<CAPTION>

Consumption (1,000 gallons/month)	Price ($/1,000 gallons)
<S>	<C>
0 to 10	$ 2.40
>10 to 20	$ 3.10
>20	$ 5.40

</TABLE>

This pricing structure is sensitive to the date and volume of water use. Actual water deliveries in fiscal 2003 decreased approximately 13% while revenues remained the same, due primarily to seasonal water deliveries with higher water rates during peak times.

Prior to May 2002, we contracted for the operation of our water and wastewater systems through an agreement with a third party contract operations firm. Beginning in May 2002, we began operating our water and wastewater system using our in-house licensed water and wastewater operator. We incurred approximately $20,580 in water service operating costs in fiscal 2003 compared to $13,896 for fiscal 2002. Water service operating costs increased approximately $7,000 in 2003 compared to fiscal 2002 due primarily to this change from contracting out those services in 2002 to providing these services in-house in 2003.

During fiscal 2003, we had wastewater usage revenues of $56,780 and incurred $10,692 in wastewater service operating costs. This compares to wastewater usage revenues of $48,832 and wastewater operating costs of $13,896, in fiscal 2002. In 2003, we changed from a variable pricing structure to a fixed pricing structure, resulting in higher revenues.

General and administrative expenses for fiscal 2003 were $318,182, or approximately $96,310 higher than for fiscal 2002, due primarily to the hiring of an additional employee beginning in January 2003. Interest income decreased to $16,263 in fiscal 2003, compared to $22,181 for fiscal 2002, due primarily to a decrease in interest rates and a decrease in the average balance in our operating cash accounts. Interest expense decreased $18,376 in fiscal 2003 to $176,275, as compared to $194,651 in fiscal 2002 due primarily to a decrease in the prime lending rate. Net loss for fiscal 2003 of $321,043 was $75,896 greater than the net loss of $245,147 for fiscal year 2002, primarily due to the addition of one employee.

Six Months Ended February 29, 2004 Compared With Six Months Ended February 28, 2003

During the six months ended February 29, 2004, we delivered approximately 22.0 million gallons of water generating water service revenues of $55,314, compared to delivery of approximately 19.3 million gallons of water generating $77,225 for the six months ended February 28, 2003. The higher revenues in the six month period ended February 28, 2003 were the result of an approximately $20,000 reversal of a water service revenue recorded in 2003. We incurred water service operating expenses of $5,190 during the six month period ended February 29, 2004, compared to $5,719 during the six months ended February 28, 2003. During the six months ended February 29, 2004, we generated revenues from wastewater fees of $27,002 from customers in the Lowry Range service area, as compared to revenues from wastewater fees of $26,587 during the six months ended February 28, 2003. We incurred wastewater operating costs of $3,819 during the six month period ending February 29, 2004 as compared to $5,013 for the six-month period ending February 28, 2003.

General and administrative expenses for the six months ended February 29, 2004 were $94,748 higher than for the six months ended February 28, 2003, primarily due to an increase in salary and overhead expenses from the addition of one employee beginning in January 2003 and legal costs incurred in connection with our annual meeting held on April 12, 2004. Net loss for the six months ended February 29, 2004 was $238,950 compared to a net loss of $127,356 for the six months ended February

28, 2003. The $111,595 increase in net loss is due to additional overhead costs from an additional employee, as well as additional legal fees incurred in connection with our annual meeting.

Liquidity and Capital Resources

At February 29, 2004, our working capital, defined as current assets less current liabilities, was $327,790. We believe that at February 29, 2004, we had sufficient working capital to fund our operations for the next year. However, there can be no assurance that we will be successful in marketing the water from our two primary water projects in the near term. In the event revenues from providing water service are not achieved, we may incur additional short or long-term debt or seek to sell additional equity securities to generate working capital.

Development of any of the water that we have, or are seeking to acquire, will require substantial capital investments. We anticipate that additional capital for the development of the water will be financed by the entity purchasing such water, through the sale of water taps to developers and water delivery charges to users. A water tap charge refers to a charge we impose to permit access to a water delivery system (e.g., a single-family home's tap into our water system), and a water service charge refers to a water customer's monthly water bill, generally charged per 1,000 gallons of water consumed by the

customer. Annually, the developer must purchase not less than a minimum number of taps, the proceeds from which are used to expand the capacity of our water system to deliver water to additional customers in the development. We anticipate that the system development portion of tap fees will be sufficient to generate funds with which we can design and construct the necessary water facilities. However, once we receive tap fees from a developer, we are contractually obligated to construct the water delivery system for the taps paid for, even if our costs are not covered by the fees we receive. We can not assure you that our revenues will be sufficient to cover our capital costs.

In October 2003, we entered into a water service agreement with a developer to provide water to approximately 4,000 SFE units that are being built on approximately 800 acres known as "Sky Ranch" located 4 miles north of the Lowry Range along Interstate 70. In May 2004, we entered into a second agreement with the developer of Sky Ranch to provide water services to an additional 850 SFEs at Hills at Sky Ranch, a development adjacent to, and to be developed concurrently with, Sky Ranch. We expect that the construction of the Sky Ranch project will begin in October 2004, with the first homes available in February 2005. Based on housing market demands of similar projects in the area and projections provided by the developer, we expect that the project will be fully built out within 10 years. Under the Sky Ranch Agreements, the developer must purchase at least 400 water taps before occupancy of the first home. The agreement permits the developer to add additional taps annually, with at least 310 taps to be purchased each year. This schedule is designed to provide us with adequate funds with which to construct the facilities needed to provide water service to the areas being built.

The water service agreements for Sky Ranch incorporate 4,850 SFE connections, which at current rates and charges would generate approximately $60 million in total water tap fee revenues and approximately $2.8 million annually in water service revenues. These represent gross fees and, to the extent that water service is provided using Export Water, we are required to pay a royalty to the State Land Board equal to 12% of the net revenue after deducting our costs. This royalty rate will increase after net revenues exceed $45.0 million. We expect to dedicate approximately 1,450 acre feet, or approximately 12%, of our Export Water supply (which is about 5.0% of our overall Rangeview water supply) for this project. We estimate we will spend approximately $27 million for infrastructure related to the development and delivery of water to the 4,850 single family equivalent units. We have never undertaken a project of this size, and no contracts have been entered into to perform this work. Accordingly, we cannot assure you that our costs will not exceed this estimate.

For the initial developments at Sky Ranch, we anticipate receiving tap fees of approximately $1.9 million, representing approximately 156 taps, in the current fiscal year ending August 31, 2004, and approximately $3.0 million, representing an additional 244 taps, prior to January 2005. We estimate that it will cost approximately $2.5 million to construct the infrastructure to service the initial 400 taps. We will expand the infrastructure to meet demand as houses are built at the Sky Ranch developments. We will initially develop the water beneath the Sky Ranch property, which is being dedicated to us by the developer in exchange for credit of a portion of the water resource tap fee. The dedicated water is sufficient to provide water service to approximately 1,400 customers. Because the dedicated water is not Export Water, no payments will be required to be made under the Financing Agreements and no royalty payments will be required to be made to the State Land Board with respect to tap fee revenues from the first 1,400 taps at Sky Ranch serviced with the dedicated water. Because the project has not yet commenced, we cannot assure you that these revenue and expense estimates will be the actual revenues and expenses that we will experience.

At February 29, 2004, we had outstanding debt to seven related parties totaling $1,109,061, $512,439 of which bears interest at prime plus 2% (6% at May 27, 2004) and $596,622 of which bears interest at 10.25%. All notes mature in August 2007. Interest is not payable on a current basis, but accrues and is added to principal monthly.

In addition, we are obligated under notes totaling $848,023 at February 29, 2004 which bear interest at rates at 7.18% and 8.04% and notes totaling $2,473,263 at February 29, 2004 which bear interest at prime plus 3% (7% at May 27, 2004). These notes mature in August 2007. The holders of these notes are parties to the Commercialization Agreement and have agreed that if the amount of principal and accrued interest on these notes is paid under the Commercialization Agreement prior to the maturity date of the notes, the notes will be canceled.

Operating Activities

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

During fiscal 2003, cash used in operating activities was approximately

$115,000, compared to cash used of approximately $39,000 in fiscal 2002. Operating costs increased in 2003 due principally to additional overhead costs from the addition of one person to our staff. Accrued interest on notes receivable of $14,000 was offset by accrued interest on notes payable of $176,000, for a change in accrued interest of approximately $162,000.

During the six months ended February 29, 2004, cash used in operating activities was approximately $117,000, compared to approximately $9,000 during the six months ended February 28, 2003. Operating costs increased due to additional costs of operating the domestic water and wastewater systems. We anticipate that a similar level of cash will be used in our operations during the remainder of fiscal 2004. We continue to provide domestic water and wastewater service to customers in the Lowry Range service area and operate and to maintain our water and wastewater systems with our own employees.

Investing Activities

We continue to invest in the acquisition, maintenance and development of both the Rangeview and Paradise water assets. These investments include legal and engineering fees associated with adjudicating additional water through the Water Court system, as well as right-of-way permit fees to the Department of Interior Bureau of Land Management.

Cash used in investing activities for fiscal 2003 was approximately $147,000, of which $144,000 was capitalized to the Rangeview assets and $3,000 was capitalized to the Paradise Water Supply. Cash used in investing activities for fiscal 2002 was approximately $109,000.

Cash used in investing activities for the six month ended February 29, 2004 was approximately $70,000, which costs were capitalized to the Rangeview Water Supply. We capitalize certain legal, engineering and permitting costs relating to the improvement of our water assets.

Financing Activities

In August 2003, we entered into a Plan of Recapitalization and a Stock Purchase Agreement with Mr. Thomas Clark, our Chief Executive Officer. Under this agreement, we issued 200,000 shares of Series D-1 preferred stock in exchange for 200,000 shares of common stock owned by Mr. Clark. We sold 200,000 shares of our common stock at $2.50 per share to 11 accredited investors, four of whom were existing common stockholders, generating proceeds of $500,000. We issued the preferred stock under Section 4(2) of the Securities Act. We sold the common stock pursuant to Regulation D, Rule 506, promulgated under the Securities Act.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Generally, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized as incurred, whereas EITF Issue No. 94-3 required such a liability to be recognized at the time that an entity committed to an exit plan. SFAS No. 146, which is effective for exit or disposal activities that are initiated after December 31, 2002, did not have a material impact on us.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if such entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity whose equity is insufficient to finance its activities or whose owners lack the risk and rewards of ownership. The Company has determined that it is not a party to a variable interest entity.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation, including requiring that this information be included in interim as well as annual financial statements. We have no plans to change to the fair value based method of accounting for stock-based employee compensation based on current literature, and therefore are not affected by the transition provisions of SFAS No. 148. We adopted the disclosure provisions of SFAS No. 148 effective December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's

Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee, including its ongoing obligation to stand

ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of the liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of FIN 45 are effective on a prospective basis to guarantees issued after December 31, 2002. However, the disclosure requirements are effective for interim and annual financial statement periods ending after December 15, 2002. Our adoption of FIN 45 had no impact on our results of operations or financial position.

In June 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of a nonpublic entity. The adoption of this statement did not have a material effect on our results of operations.

TOTAL CONTRACTUAL CASH OBLIGATIONS

A summary of our total contractual cash obligations (in millions) as of August 31, 2003 is as follows:

<TABLE>
<CAPTION>

	PAYMENTS DUE BY PERIOD:				
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YR.	1-3 YRS.	3-5 YRS.	MORE THAN 5 YRS.
<S>	<C>	<C>	<C>	<C>	<C>
Long-term debt	$ 5.0(1)	--	--	$ 5.0(1)	--
Participating interests in Rangeview water supply	$36.2(2)	--	--	--	--

<FN>
(1) As of February 29, 2004, $3,321,287 of this debt, due in August 2007, is subject to reduction through payments to holders of the notes under the Commercialization Agreement. If the amount of principal and accrued interest on the notes is paid under the Commercialization Agreement prior to the maturity of the notes, the notes will be canceled.

(2) These amounts are payable under the Financing Agreements entered into to finance our acquisition of the Rangeview water assets. We are only required to make payments from the water resource portion of tap fees we receive from the sale of Export Water. If we do not receive sufficient proceeds from the sale of Export Water to satisfy these obligations, the obligations will not become payable.
</TABLE>

OFF-BALANCE SHEET ARRANGEMENTS

We have no off balance sheet arrangements.

BUSINESS

Background

Pure Cycle was founded and continues to be managed based on the belief that water is a precious commodity, one that is often undervalued and therefore used inefficiently.

We own or have rights to use significant water assets which we have begun to utilize to provide water and wastewater services to customers located in the Denver, Colorado metropolitan area near our principal water assets. We will operate water and wastewater systems to deliver and treat the water we provide. Our services will include designing, constructing, operating and maintaining systems to service our customers.

We have exclusive access to approximately 29,000 acre feet per year of water from, and the exclusive right to provide water and wastewater services to, the Lowry Range service area. The Lowry Range is located in Arapahoe County approximately 15 miles southeast of Denver and 12 miles south of the Denver International Airport. Of the 29,000 acre feet of water to which we have access, 17,500 acre feet are available to us for use on the Lowry Range. We own the remaining 11,650 acre feet that we can "export" from the Lowry Range to supply water to communities and developers in need of additional water supplies.

There are no legal limitations on the locations outside of the Lowry Range in which we can sell Export Water, except that, if we sell Export Water for use outside of Arapahoe County, we are required to offer to Arapahoe County the right to buy such water at the same rates. We acquired these rights and the Export Water in 1996 when we entered into an agreement with the State Land Board, which owns the Lowry Range, and the District, a quasi-municipal political subdivision formed for the sole purpose of providing water and wastewater services to the Lowry Range.

History

Pure Cycle was incorporated in 1976 to commercialize a patented single family water recycling technology and became a public company in 1977. During the late 1970's, we manufactured, installed and maintained approximately 50 water recycling systems that captured and treated wastewater flows from homes and recycled that water for potable use. However, these individual recycling systems proved to be too costly for us to operate, monitor and maintain, and we discontinued the business in the early 1980's.

Beginning in 1987, concurrent with a change of management and ownership control, we shifted our business to the acquisition, development and wholesale marketing of water and large scale wastewater utility systems, principally for sale to municipalities in the Denver area. We acquired rights to what we refer to as the Paradise Water Supply, which includes several water wells and rights to divert and store up to 70,000 acre feet of Colorado River water near DeBeque, Colorado. Our ability to provide water service was greatly enhanced in 1996 when we entered into a water privatization agreement with the District and the State Land Board and purchased annual entitlement rights to 11,650 acre feet of water available for service to customers located off the Lowry Range service area and entered into a water service agreement extending through 2081 which grants us the rights to an additional 17,500 acre feet of water per year to serve customers located in the Lowry Range service area.

Water to Meet Colorado Demands

In common with large portions of the desert West, the Denver metropolitan area is semi-arid, receiving an average of only 13 inches of precipitation annually. Eighty percent of the State's water supplies reside west of the Continental Divide, while 80 percent of the population resides east of the Continental Divide. Roughly 80 percent of Colorado's annual surface water supply comes from snow.

Due to wide fluctuations in snowfall from year to year and area to area, the amount of surface water that can be captured for use varies greatly. Further, the State is obligated through compacts and treaties to allow much of the water that originates in the State to pass out of Colorado for use by downstream out-of-state users.

Most of the state's population resides along the "front range," which extends from Pueblo to Fort Collins and lies along the eastern side of the Rocky Mountains. The largest population center is the greater Denver metropolitan area which has been growing at above average rates for decades. By the 1960s, water available during an average precipitation year from Denver's primary source of surface water, the South Platte River, was no longer sufficient to meet the area's needs. To address this imbalance, numerous reservoirs and tunnels have been built to transport an average of 500,000 acre feet per year of Colorado River water located in western Colorado to eastern Colorado users. Even with this diversion, the U.S. Department of the Interior has identified the Denver metropolitan area as one that is 'highly likely' to experience a 'water supply crisis' by 2025.

The Denver Regional Council of Governments, a voluntary association of 50 county and municipal governments in the Denver metropolitan area, estimates that between 2000 and 2025 the population in the Denver metropolitan area will grow from 2.4 million to 3.4 million. To accommodate for this growth, the metropolitan area is expected to grow from about 500 square miles to about 770 square miles during the same 25-year period. We expect that servicing this population expansion will require an additional 300,000 acre feet of water annually.

With our Rangeview water assets, we are positioned to supply water to meet the needs of approximately 80,000 single family homes, or approximately 240,000 people.

Pure Cycle Assets

Rangeview Water Assets. Our primary assets are a combination of nontributary groundwater rights and tributary surface water and storage rights associated with the Lowry Range property, which we collectively call the "Rangeview Water Supply." We own the rights to use annually 1,650 acre feet of tributary surface water, together with 10,000 acre feet of non-tributary water, that can be exported off the Lowry Range property to serve area users. We have the right to use an additional 1,650 acre feet of surface water together with

over 16,000 acre feet of nontributary groundwater to serve customers within our Lowry Range service area. We provide additional information regarding tributary and non-tributary water rights under "Colorado Water Law Principles" below. The Export Water we own, together with water available under our service agreements, total over 29,000 acre feet.

Beginning in 1988, we began to pursue acquisition of a portion of the Lowry Range water. Our initial interest was the water which could be exported off the property to serve customers throughout the Denver area. Through a series of transactions between the initial project principals, the State Land Board and the District, we ultimately acquired the rights we now own. These assets were acquired using a financing instrument, called the Commercialization Agreement, in which we raised approximately $11,100,000 to purchase the Rangeview water supply, and issued in exchange therefore 2,189,952 shares of common stock, warrants to purchase 2,038,000 shares of common stock, 1,600,000 Series A Preferred Stock and an obligation to pay to these investors the first $31,807,000 we receive from the sale or other disposition of the Export Water. Also, as part of the Rangeview water supply acquisition, we raised an additional $950,000 from another investor, and incurred an incremental obligation to pay the next $4,000,000 we receive from the sale or other disposition of Export Water to this investor. The investors that are parties to the Commercialization Agreement comprise the majority of the selling stockholders in this prospectus. The shares being sold by the selling stockholders represent equity issued in connection with the Commercialization Agreement transactions.

We are the exclusive water and wastewater service provider for the 24,000-acre Lowry Range property through 2081. Under this agreement we are entitled to manage 17,500 acre feet of water capable of servicing up to 47,000 SFE equivalents (or approximately 140,000 people). We also own the rights to an additional 11,650 acre feet of water annually that we can sell to other areas throughout the Denver metropolitan region. If we do not use our full annual entitlement in any year, we are permitted to increase our utilization in a subsequent year to the extent of the deficit, but the aggregate amount to be withdrawn cannot exceed 1,165,000 acre feet for customers located off the Lowry Range. We estimate that this amount of Export Water is sufficient to service up to 32,000 single family homes (or approximately 96,000 people).

We will design, construct and operate facilities to provide water and wastewater service to customers located on the Lowry Range through our service contract period ending in 2081. The District owns both the water and the wastewater systems during our contract period, and we will operate both systems during this period pursuant to our service contract. After 2081, ownership of the water system will revert to the State Land Board. We will also design, construct and operate the facilities to provide water and wastewater service to customers located off the Lowry Range that will use our Export Water, and will own these assets. We will contract with third parties for construction of these facilities. We will design, engineer, and develop these systems as a single unified system to improve reliability and economies of scale for customers located both on and off the Lowry Range property.

Paradise Water Assets. In 1987, we acquired assets known as the Paradise Water Supply. These assets include a Water Court decree for conditional water rights enabling us to build a 70,000 acre-foot reservoir to store tributary water on the Colorado River, a right-of-way permit for U.S. Bureau of Land Management property at the dam and reservoir site, and four existing tributary water wells with a theoretical capacity to produce approximately 56,000 acre feet of water per year. The reservoir site is located in western Colorado on the Colorado River about 60 miles east of the Utah border. Our ability to use this asset may be limited, however, because of constraints imposed by the difficulties and costs involved in transporting the water out of the Colorado River watershed to the Denver metropolitan area and because of legal complications in transferring such water to down-stream states like California under the interstate Colorado River Compact. See "Governmental Regulation - Water Deliveries." Due to the strict regulatory requirements for constructing an on-channel reservoir, completing this conditional storage right at its decreed location would also be difficult. Our Paradise water right is also conditioned on a Finding of Reasonable Diligence from the water court every six years. To arrive at that finding, a water court must determine that we are using the water right or that there is a commitment for its use. If the water court is unable to make such a finding, our right to the Paradise water may be lost. The next such finding will be required to be made in 2005. To date, the required finding has been made at each six-year period. If challenged, we intend to vigorously defend our Paradise asset. We cannot assure you that we will ever be able to make use of this asset or sell the water profitably.

We continue to evaluate prospects for the acquisition of additional water rights in the Denver metropolitan area to expand our water service capabilities.

Revenue

We will derive revenue from two principal sources: one-time tap fees, which are typically paid by the developer of a property and become part of the cost of the lot or home, and service fees, which are monthly metered water

deliveries paid by all customers connected to our water and wastewater systems. Under our privatization agreement with the District and the State Land Board, pricing for water and wastewater services is controlled through a market-driven pricing mechanism in which our rates and charges may not exceed the average of similar rates and charges of three nearby communities that comprise our water pricing group.

Table 1 provides a summary of our tap fees over the past several years. We base our tap fees on the average of the tap fees that have been charged by the three communities whose rates determine our allowable charges.

<TABLE>
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TABLE 1 - WATER SYSTEM TAP FEES

Year	1998	1999	2000	2001	2002	2003	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Tap Fee (per SFE)	$8,165	$8,165	$8,165	$10,500	$10,500	$11,150	$12,420
Percentage increase	---	---	---	29%	---	6.2%	11.4%

</TABLE>

Water system tap fees consist of two components: a system development fee and a water resource charge. System development fees are typically used to defray the cost to develop and deliver the water into the distribution system. Water resource charges are typically used to defray the costs associated with the water rights. Our current water system development fee is $9,020 per single family equivalent (SFE), and our water resource charge is $3,400 per SFE. An SFE is defined as the amount of water required each year by a family of three persons living in a single family house on a standard acre lot. We will also collect an additional wastewater system development fee of $4,883 per SFE to develop, operate and maintain the wastewater system. Currently, for a typical residential customer using approximately 0.4 acre feet of water annually, the water service fee is approximately $578 per year and the wastewater service fees are approximately $404 per year for a typical residential customer. We also collect other relatively small fees and charges from residential customers and other end users to cover miscellaneous administrative and service expenses, such as application fees, review fees and permit fees.

We negotiate the payment terms for tap fees and other water/wastewater service obligations with each land developer or builder before we commit to providing service and begin construction of the project. In some cases where service is provided off the Lowry Range, we may provide only water service, but will typically retain the right to reuse treated effluent wastewater in our dual-pipe distribution system. We are typically responsible for the construction of wholesale facilities, which are those facilities necessary to develop and treat the water, including water wells, water collection pipelines, water reservoirs, water treatment plants, storage tanks, pump stations and wastewater treatment plants. The costs for these facilities are financed by the system development fee portion of the tap fees paid by developers to gain access to the water and wastewater systems.

Developers are typically responsible for the construction of retail facilities - the water distribution system that transports the water throughout the subdivision or community. Retail facilities are constructed pursuant to our design standards and are inspected by our engineers prior to completion. Once we certify that the retail facilities have been constructed in accordance with our design criteria, the developer is required to dedicate the retail facilities to us at no cost. In the Sky Ranch transaction, the developer will dedicate the retail facilities to the District. We are then responsible for the operation and maintenance of those facilities.

Customer facilities consist of water service pipelines, plumbing, meters and other components that carry potable water and re-use water from the street to the customer's house and collect wastewater from the customer's house to the street. In many cases, a portion of the customer's facilities are also constructed by the developer, again pursuant to our design standards, but are owned and maintained by the customer.

Under the Amended and Restated Lease Agreement dated April 4, 1996 between the State Land Board and the District and the Agreement for Sale of Export Water dated April 11, 1996 between the District and us (our "water privatization agreements"), the State Land Board is entitled to a royalty and the District is entitled to retain a fee, each based on a percentage of revenues from water sales that utilize

water from the Rangeview water assets. The calculation of royalties and fees depends on whether the customer is located on the Lowry Range or elsewhere.

Payments from customers who are on the Lowry Range generate royalties to the State Land Board at a rate of 12% of gross revenues, except that the State Land Board could elect instead to receive royalties equal to 50% of the aggregate net profits of the District and us if (i) metered production in any calendar year exceeds 13,000 acre feet or (ii) 10,000 surface acres on the Lowry Range has been rezoned to a non-agricultural use and finally platted and water tap agreements have been entered into with respect to all improvements to be constructed on such acreage.

Payments from customers located outside the Lowry Range also generate royalties to the State Land Board. These royalties vary depending on a number of factors, including whether we pay any of the costs of withdrawal, treatment or delivery of the water ("Delivered Basis") or whether we sell the water without incurring those costs ("Entitlement Basis"). Water sold on a Delivered Basis is sold net of costs (including reasonable overhead) incurred as a direct or indirect result of incremental activity associated with the withdrawal, treatment and delivery of Export Water ("infrastructure costs"). Water sold on an Entitlement Basis generates royalties on a gross revenue basis. We have not entered into any agreements to sell water on an Entitlement Basis, and do not currently anticipate that we would enter into agreements to sell water on that basis.

Delivered Basis. When we sell Export Water on a Delivered Basis, the royalty is based on gross revenues less infrastructure costs ("net revenues") and escalates based on the amount of net revenues we receive. The royalty for Export Water is lower for sales to a water district or similar municipal or public entity than for sales to a private entity.

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

</TABLE>

We sell water in our Sky Ranch Agreements on a Delivered Basis, and for the near future we believe our royalty obligation to the State Land Board will be 12% of net revenues.

Entitlement Basis. We do not currently anticipate that we will sell water on an Entitlement Basis. However, if the Export Water is sold to a public entity on an Entitlement Basis, the royalty payable to the State Land Board is 10% of the first $45.0 million of the sum of gross revenue plus $500 per acre foot sold, escalating on a graduated scale as revenues increase to a maximum of 50% if gross revenues exceed $90.0 million. If Export Water is sold for a private use on an Entitlement Basis, the royalty rates begin at 12% on the first $45.0 million of the sum of gross revenues plus $500 per acre foot sold, and escalate with increases in revenue to 50%.

The water privatization agreements were written prior to any development of the Lowry Range or of areas outside the Lowry Range that utilize our Export Water and did not anticipate the specific circumstances of the development that have arisen and may not clearly delineate rights and responsibilities for the forms of transactions that arise in the future as we enter into and negotiate agreements for sale of the Export Water. We anticipate that we will be required to enter into negotiations with the State Land Board from time to time to clarify the applicability of contract terms to circumstances

that were not anticipated at the time the agreements were entered into. Certain of these provisions may be material, and a determination, by an arbitrator or otherwise, of positions that are not favorable to us could have a material adverse effect on us. We cannot assure you that the outcome of such negotiations will be favorable to us.

The District collects fees from customers on the Lowry Range, pays the royalties and fees, and remits the remainder to Pure Cycle.

Subject to the factors set forth above, Table 2 below summarizes these payments:

<TABLE>
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TABLE 2 - OBLIGATIONS RELATING TO USE OF RANGEVIEW WATER ASSETS

REVENUE SOURCE	STATE LAND BOARD	RANGEVIEW METROPOLITAN DISTRICT
<S>	<C>	<C>
Water Tap Fees & Service Fees within Lowry Range	12-50% of gross revenue	5% of gross revenue after State Land Board royalty
Water Tap Fees & Service Fees from Export Water	12-50% of net revenue (gross revenue less costs incurred to deliver water)	0%
Wastewater Tap Fees	0%	0%
Wastewater Service Charges	0%	10% of gross revenue

</TABLE>

Developers having rights to groundwater underlying their properties can receive a credit against a portion of their tap fees if they dedicate their water to us. The credit is equal to the water resource charge portion of the tap fee - currently $3,400 of the total $12,420 tap fee, based on 0.7 acre feet of water being dedicated to us for each water resource tap credit issued. In the Sky Ranch transactions, we are crediting the developer the water resource charge portion of the tap fee for the first 767 taps and combining the water resources underlying the Sky Ranch property with a portion of our Export Water to provide the full amount of water required for the Sky Ranch developments.

We are obligated to pay investors in the Commercialization Agreement the water resource fee component from the sale of Export Water taps up to a total of $36,240,000. The State Land Board has a security interest in the Export Water to ensure that we pay our obligations under the Commercialization Agreement. The obligations under the Commercialization Agreement will not prevent us from utilizing the system development portion of the tap fee to construct the infrastructure we will need to build to provide our water services.

Water Reclamation

With interest heightened by an ongoing drought, most water providers in Colorado are actively pursuing the re-use of treated wastewater for irrigation and other non-potable uses. Our master plan for the Lowry Range and other areas in which we will work with developers to install water service calls for the installation of a dual water distribution system, with one pipe supplying the customer with potable water and the second pipe providing treated effluent wastewater, or "reclaimed" water, for irrigation and other nonpotable uses. A third pipe would retrieve effluent wastewater for treatment and subsequent reuse. About one-half of the water needed to meet Denver-area municipal water demands is used for irrigation of lawns and landscape. We believe that treated wastewater would provide an essentially drought-proof supply of irrigation water for the areas we will serve. The Colorado Department of Public Health and Environment is currently evaluating the use of effluent wastewater for residential irrigation,

and, pending the outcome of their review, we may not be able to deliver this water to residential customers. However, even if we cannot use this reclaimed water for residential irrigation , we will be able to use it in other approved commercial irrigation uses, such as for golf course watering. We expect that the implementation of an extensive water reclamation system, in which essentially all wastewater treatment plant effluent will be re-used to meet nonpotable water demands, will greatly expand our capability to provide quality water service and will reinforce our philosophy that emphasizes the importance of water recycling.

The Lowry Range

The State Land Board acquired the Lowry Range, which was formerly a military reservation, in the 1960s. The Lowry Range encompasses approximately 27,000 acres, of which 24,000 acres are within our exclusive service area.

The Lowry Range is located in unincorporated Arapahoe County 15 miles southeast of downtown Denver and 12 miles directly south of Denver International Airport. The State Land Board has stated that the Lowry Range is the most valuable property in its nearly 2,500,000 acre portfolio. It has explored a number of development models for the property, including continued development similar to that which is ongoing adjacent to the property's western borders, a new planned community, and a compact development model with high density village centers surrounded by large expanses of open space. The State Land Board continues to review and refine the development opportunities for the Lowry Range and anticipates approaching the development community for "requests for qualification" and "requests for proposals" during 2004.

We believe that the Lowry Range is among the single largest contiguous

parcel of primarily undeveloped land in the United States that is near a metropolitan area and owned by a single landowner. In October 2003, the State Land Board directed its staff to prepare a request for proposal to send to the development community to seek assistance with the planning and development of this tract of property. The State Land Board has engaged the Urban Land Institute to assist in the preparation of evaluation criteria for a request for qualification and request for proposal. The Urban Land Institute's criteria are expected to be completed in June 2004. The State Land Board has indicated that it will shortly thereafter send a request for qualification followed by a request for proposal to local and national developers to assist in the development of the Lowry Range.

We have designed and constructed, and we currently operate and maintain, water and wastewater facilities that service customers on the Lowry Range. We currently have one facility that during 2003 provided, treated and delivered approximately 47 million gallons of potable water and treated approximately 7 million gallons of wastewater. We intend to plan, construct and operate the facilities serving the Lowry Range and areas outside the Lowry Range in a unified manner to capitalize on economies of scale.

Full build-out of the Lowry Range is likely to take more than 30 years, with initial development occurring as soon as two to three years from now, depending on the decisions of State Land Board and the results of the proposal process.

Export Water

Colorado municipalities have strong incentives to attract commercial development to their areas, as a large portion of their revenues are derived through sales tax receipts. Cities and municipalities historically have used water availability as a means to attract development in competition with other municipalities. As water has become scarce, cities and municipalities have begun requiring property developers to demonstrate that they have sufficient water supplies for their proposed projects before the

cities and municipalities will consider rezoning applications. This is forcing developers to find adequate water supplies in order to develop new property.

Our water marketing activities are centered around targeting our water and wastewater services to developers and homebuilders developing new areas of the Denver metropolitan area. Our water supplies are largely undeveloped and are located in southeast Arapahoe County, one of the fastest growing regions of the Denver metropolitan area. We work with area developers to investigate water supply constraints, water and wastewater utility issues, market demand, transportation concerns, employment centers and other issues in order to identify suitable areas for development.

Current Operations

At this time, we operate and maintain all of our water supply and wastewater treatment facilities with limited assistance from third party maintenance contractors. Water deliveries during 2003 totaled about 47 million gallons, ranging from 2 million gallons per month in the winter to 7 million gallons per month in the summer. Our wastewater treatment plant currently has a permitted capacity of 130,000 gallons per day and receives about 20,000 gallons per day.

Presently, approximately 81% of our water and wastewater treatment revenues are from one customer. In 1998, we entered into a water service agreement with the State of Colorado Department of Human Services to provide water and wastewater services to a juvenile correction facility on the western edge of the Lowry Range known as the Ridge View Youth Services Center. We designed and built this facility to provide water and wastewater services serving the approximately 200 single family equivalents of the Ridge View Youth Services Center. Upon completion in 2001, we commenced service to this facility.

In October 2003, we entered into a water service agreement with a developer to provide water to approximately 4,000 SFE that are being built on approximately 800 acres known as "Sky Ranch" located 4 miles north of the Lowry Range along Interstate 70. In May 2004, we entered into a second agreement with the developer of Sky Ranch to provide water services to an additional 850 SFEs at Hills at Sky Ranch, a development adjacent to, and to be developed concurrently with, Sky Ranch. We expect that the construction of the Sky Ranch projects will begin in October 2004, with the first homes available in February 2005. Based on housing market demand in similar projects in the area and projections provided by the developer, we expect that the project will be fully built out within 10 years. Under the Sky Ranch Agreements, the developer must purchase at least 400 water taps before occupancy of the first home. The Sky Ranch Agreements permit the developer to add additional taps annually, with at least 310 taps to be purchased each year. This schedule is designed to provide us with adequate funds with which to construct the facilities needed to provide water service to the areas being built.

The water service agreements for Sky Ranch incorporate 4,850 SFE connections, which at current rates and charges would generate approximately $60 million in total water tap fee revenues and approximately $2.8 million annually in water service revenues. These represent gross fees and, to the extent that water service is provided using Export Water, we are be required to pay a royalty to the State Land Board equal to 12% of the net revenue after deducting our costs. This royalty rate increases after we have received net revenues in excess of $45.0 million. We expect to dedicate approximately 1,450 acre feet, or approximately 12%, of our Export Water supply (which is about 5.0% of our overall Rangeview water supply) for this project. We estimate we will spend approximately $27 million for infrastructure related to the development and delivery of water to the 4,850 single family equivalent units. We have never undertaken a project of this size, and no contracts have been entered into to perform this work. Accordingly, we cannot assure you that our costs will not exceed this estimate.

For the initial developments at Sky Ranch, we anticipate receiving tap fees of approximately $1.9 million, representing approximately 156 taps, in the current fiscal year ending August 31, 2004, and approximately $3.0 million, representing an additional 244 taps, prior to January 2005. We estimate that it will cost approximately $2.5 million to construct the infrastructure to service the initial 400 taps. We will expand the infrastructure to meet demand as houses are built at the Sky Ranch developments. We will initially develop the water beneath the Sky Ranch property, which is being dedicated to us by the developer in exchange for credit of a portion of the water resource tap fee. The dedicated water is sufficient to provide water service to approximately 1,400 customers. Because the dedicated water is not Export Water, no payments will be required to be made under the Financing Agreements and no royalty payments will be required to be made to the State Land Board with respect to tap fee revenues from the first 1,400 taps at Sky Ranch serviced with the dedicated water. Because this project has not yet commenced, we cannot assure you that these revenue and expense estimates will be the actual revenues and expenses that we will experience.

Projected Operations

We will develop water and wastewater infrastructure in stages to meet demand. We anticipate that development of the entire 29,000 acre feet of non-tributary water will require between 250 and 300 high capacity water wells ranging in depth from 800 feet to over 2,500 feet. We will drill separate wells into each of the three principal aquifers and each well will deliver water to central water treatment facilities for treatment prior to delivery to customers. We also intend to build structures to divert surface water to four storage reservoirs to be located in the Lowry Range. The surface water will be diverted when available and, prior to distribution to our customers, will be treated by a separate water treatment facility that we will build specifically to treat surface water. We anticipate that full build-out of water facilities on the Lowry Range will cost approximately $340 million and will accommodate up to water service to 80,000 single family equivalent units incorporating both customers located in and outside the Lowry Range service area.

We intend to design, construct and operate our own wastewater treatment facilities using advanced wastewater treatment technologies currently available in the market. We plan to store our treated effluent water in surface water reservoirs for reuse in our irrigation water system. The combination of deep well water from our non-tributary water supplies, surface water supplies from two surface water streams that flow through the Lowry Range and the reuse of the treated effluent water supplies will provide an advanced water management system that maximizes the use and reuse of our valuable water supplies.

We currently operate one system serving customers on the Lowry Range that has a capacity to treat approximately 130,000 gallons of wastewater per day; current utilization is approximately 20,000 gallons per day. We anticipate that the full build-out of wastewater facilities on the Lowry Range will cost approximately $68.4 million and will accommodate up to approximately 12.3 million gallons of wastewater per day serving an estimated 47,000 single family equivalent units.

We intend to utilize third party contractors to construct our facilities and we will employ licensed water and wastewater operators to operate our water and wastewater systems. At full buildout, we expect to employ approximately 50 professionals to operate our systems, read meters, bill customers, and manage our affairs. We will take advantage of advanced technologies to keep personnel requirements and operating costs low. Currently available technologies enable meter reading and billing to be done automatically, reducing associated handling and labor costs. A vehicle driving past a home can send a signal to the meter, and the meter reading goes directly into a database, which automatically prints billing information for the customer.

The Rangeview Metropolitan District is a quasi-municipal corporation and political subdivision of Colorado formed in 1986 for the sole purpose of providing water and wastewater service to the Lowry Range, using water leased to the District by the State Land Board. The District was formed following, and based on, the purchase in 1986 of a 40 acre parcel of vacant land located in unincorporated Arapahoe County near but not on the Lowry Range. This land comprises all of the property currently within the boundaries of the District.

The District is run by an elected board of directors. The only eligible voters and the only persons eligible to serve as directors are the owners of property in the 40 acre boundary of the District. The current directors of the District are Thomas P. Clark, Mark W. Harding, Scott E. Lehman (all employees of Pure Cycle) and Thomas Lamm.

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

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

It is likely that at some point in the future, the board of directors of the District will be comprised entirely of directors independent from Pure Cycle. As the State Land Board develops the Lowry Range, landowners on the Lowry Range may petition to include their land within the District's boundaries. Provided such petition complies with applicable law, the District is required by its lease with the State Land Board to proceed with due diligence to include the area designated in such petition within the District's boundaries. As the District's boundaries expand beyond the initial 40 acre parcel, the base of persons eligible to serve as directors and eligible to vote will also increase. A board of the District that is not controlled by us would not have the power to take away from us the water rights embedded in our existing agreements.

COMPETITION

Although we have exclusive, long term water and wastewater service contracts for the Lowry Range service area, our business of providing water service using our Export Water is subject to competition. Alternate sources of water are available, principally from other private parties, such as farmers owning senior water rights that are no longer being economically used in agriculture, and municipalities seeking to annex newly developed areas in order to increase their tax base. Our principal

competition in areas close to the Lowry Range would be the City of Aurora. The principal factors affecting competition for potential purchasers of Export Water include the availability of water for the particular purpose, the cost of delivering the water to the desired location, and the reliability of the water supply during drought periods. We believe that our assets provide us with a competitive advantage because our legal rights to the assets have been confirmed for municipal use, our water supply is close to Denver area water users and our pricing structure is competitive. Further, the size of the Lowry Range service area and the amount of property that can be served by the Export Water will provide us with economies of scale that should give us advantages over our competitors.

Colorado Water Law Principles

Under Colorado water law, a person generally does not own the water itself but only the right to use the water from a certain source. A water right, however, is considered a property right that can be owned and conveyed, separate from land, in the same manner as a real property interest.

Generally, we own two types of water rights: tributary water rights and nontributary groundwater rights. In addition, we own water storage or recharge

rights, which consist of both the right to use the water stored or recharged, and the right to construct, maintain and/or use the reservoir or aquifer in which the water is stored.

Colorado water rights are administered jointly by special State Water Courts and the State Engineer's Office. Water Courts adjudicate and confirm the nature and scope of water rights by issuing decrees. The State Engineer is responsible for issuing well permits, implementing interstate compacts and administering tributary water rights.

Tributary water rights are covered by the Colorado Constitution, which provides that all surface and ground water in or tributary to natural streams in Colorado is the property of the public and subject to appropriation. Such tributary water includes all springs, surface drainage and groundwater that is hydrologically connected to surface streams. Tributary water in Colorado is subject to the "prior appropriation" doctrine, which is grounded on the "first-in-time, first-in-right" principle. Under this doctrine, an absolute tributary water right is acquired by the act of diverting and placing the water to some beneficial use, and the right is confirmed and assigned a priority based on the date of initial use through a decree issued by a State Water Court. The Water Court decree legally confirms the appropriation date, the specific type and place of use, and the amount of water permitted to be diverted under the water right. Decreed water that is appropriated earlier in time holds senior priority over later-acquired water rights. In times of shortage, a senior water right must be fully satisfied before any junior right can use any water. This means that the relative priority of a tributary water right is critical to its value. A tributary water right cannot typically be used and reused successively to exhaustion.

Tributary water rights can also be "conditional" as opposed to absolute. A conditional water right permits an owner to take an initial step towards appropriating water, such as planning a storage or diversion structure, and demonstrating to the Water Court every six years that additional steps are diligently being taken to put the water to a beneficial use. The water right can ultimately be perfected and become an absolute water right, with the date of appropriation being the date of the initial action. Our Paradise Water Supply consists in part of conditional rights in tributary water in the Colorado River basin in western Colorado.

Nontributary groundwater is defined by statute as water that is not hydrologically connected to surface water. In Colorado, nontributary water is most commonly found in the Denver Basin, which is a series of four aquifers stretching from the town of Greeley south to Colorado Springs, and from the foothills of the Rocky Mountains to east of the Denver metropolitan area. Nontributary groundwater is not subject to the prior appropriation doctrine and the related priority administration system. Rather, the

right to use nontributary water is generally incident to overlying land ownership. By statute, owners of surface land have rights to withdraw the calculated amount of nontributary groundwater that lies beneath their land, and these rights are perfected by drilling a well or obtaining a Water Court decree. An owner can withdraw one percent of the total volume of nontributary groundwater to which it is entitled each year, in order to allow this resource, to the extent non-renewable, to last 100 years. If the full annual allotment in any year is not used, the deficit can be used in subsequent years. Nontributary water is permitted to be used and reused successively to exhaustion. As a result, rights to nontributary water are extremely valuable, particularly in times of drought and water shortages.

Government Regulation

Water Quality

The water we deliver for use by customers must meet water quality standards for public water supply systems that are set under the federal Safe Drinking Water Act (SDWA), 42 U.S.C. Sec. 300f et seq. and related Colorado state law. These standards are subject to periodic revision and may become more strict in the future. In general, we anticipate that groundwater from wells located on the Lowry Range will conform with these water quality standards without treatment, other than residual disinfection prior to use. Lower quality groundwater, if encountered, may be used directly in the non-potable irrigation system, blended with other potable water supplies to yield an acceptable quality mixture, or receive additional treatment. We will build water filtration plants to treat surface waters prior to use. We believe that we should have no difficulty meeting existing SDWA standards.

Wastewater that we treat that is or will be discharged to any stream, drainage or aquifer, must also comply with various water quality standards and other requirements under the Federal Water Pollution Control Act (FWPCA), 33 U.S.C. Sec. 1251 et seq., as delegated to and administered by the State of Colorado. We currently operate a wastewater treatment plant that discharges treated wastewater effluent to Coal Creek under a State discharge permit. We believe we should also have no difficulty meeting any applicable FWPCA or

related State requirements associated with any regulated treated wastewater discharges. As noted above, our master plan calls for a dual distribution system under which treated wastewater can be reclaimed and redistributed to customers for irrigation use, which would limit regulation under the above FWPCA discharge permit program.

Water Deliveries

While we are exploring the potential sale of our Paradise Water Supply to customers in Arizona, Nevada and California, such out-of-state transactions are subject to several significant regulatory hurdles. Colorado is a signatory to interstate compacts with six other western states to apportion fixed amounts of water from the Colorado River. These compacts contain complex provisions that impose obligations on the states to ensure that each state receives and uses only its allotted amount of Colorado River water. Rights created by interstate compacts are superior to state water rights granted by the State of Colorado; Colorado may create and vest in-state water rights as property, but these rights are subject to Colorado's allocated share of Colorado River water and its obligation to deliver water to downstream states under the compacts. Recently, the U.S. Department of Interior began strictly enforcing the provisions of the Colorado River Compact of 1922 to require that California limit the amount of Colorado River water it diverts to 4.4 million acre-feet, the amount it was originally allocated under that compact. Significant demand for water exists in California, Nevada and Arizona as a result of increased populations in these states, giving rise to water needs that exceed the supplies of water originally allocated to these states under the compact. However, as a result of obligations imposed on Colorado by the compacts to send water to the downstream states, Colorado law restricts the export of water out of state without obtaining a Water Court decree, and to issue a decree, the Water Court must find that such export is not in violation

of provisions of interstate compacts and does not prevent Colorado from complying with its interstate compact obligations. Obtaining such a decree would likely involve significant litigation cost.

Employees

We currently have three employees, none of whom is subject to any collective bargaining agreements. We believe that our relations with our employees are good.

PROPERTIES

Office Lease

We currently occupy approximately 1,800 square feet of office space at no cost from Thomas P. Clark, our Chief Executive Officer and one of our directors. There is no written lease.

Facilities

Generally, we will own and operate the water and wastewater facilities to be constructed for service to customers located off the Lowry Range that are using our Export Water. While we have an exclusive right to provide water and wastewater services to customers on the Lowry Range until 2081, as well as the obligation to construct and operate the wastewater facilities to provide this water, the facilities (other than the wastewater system) will be owned by the State Land Board, and the District will own the wastewater system. We intend to construct the water supply facilities for both the Lowry Range service area and for our Export Water services as part of a unified plan. Under our service agreement with the State Land Board and the District, we have a perpetual right to construct, operate and maintain water supply facilities on the Lowry Range as needed to produce and supply Export Water.

Rangeview Metropolitan District

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

MANAGEMENT

Directors and Executive Officers

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

<TABLE>
<CAPTION>

Name	Age	Position

Harrison H. Augur (1)(2)	62	Chairman of the Board
Thomas P. Clark	67	Director, Chief Executive Officer
Mark W. Harding	40	Director, President
George M. Middlemas(1)(2)	57	Director
Margaret S. Hansson	79	Director
Richard L. Guido (1)(2)	59	Director

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

HARRISON H. AUGUR was elected Chairman of the Board in April 2001. For the past 20 years, Mr. Augur has been involved with investment management and venture capital investment groups. Mr. Augur has been a General Partner of CA Partners since 1987, and General Partner of Patience Partners LLC since 1999. Mr. Augur received a Bachelor of Arts degree from Yale University, an LLB degree from Columbia University School of Law, and an LLM degree from New York University School of Law.

THOMAS P. CLARK was appointed Chief Executive Officer in April 2001. Prior to his appointment as our Chief Executive Officer, Mr. Clark served as our President and Treasurer from 1987 to April 2001. Mr. Clark is primarily involved in the management of our business. His other business activities include: President, LC Holdings, Inc. (business development), 1983 to present, and partner (through a wholly owned corporation) of Resource Technology Associates (development of mineral and energy technologies), 1982 to present. Mr. Clark serves on the board of the Rangeview Metropolitan District. Mr. Clark received his Bachelor of Science degree in Geology and Physics from Brigham Young University.

MARK W. HARDING joined Pure Cycle in April 1990 as Corporate Secretary and Chief Financial Officer. He was appointed President in April 2001, and on February 13, 2004 was appointed to fill a vacancy on the board. He brings a background in public finance and management consulting. From 1988 to 1990, Mr. Harding worked for Price Waterhouse, where he assisted clients in providing public finance and other investment banking related services. Mr. Harding is the President of the Rangeview Metropolitan District. Mr. Harding has a B.S. Degree in Computer Science and a Masters in Business Administration in Finance from the University of Denver.

GEORGE M. MIDDLEMAS has been a Director since April 1993. Mr. Middlemas has been a general partner with Apex Investment Partners, a diversified venture capital management group, since 1991. From 1985 to 1991, Mr. Middlemas was Senior Vice President of Inco Venture Capital Management, primarily involved in venture capital investments for INCO Securities Corporation. From 1979 to 1985, Mr. Middlemas was a Vice President and a member of the Investment Committee of Citicorp Venture Capital Ltd., where he sourced, evaluated and completed investments for Citicorp. Mr. Middlemas is a director of Tut Systems, and Pennsylvania State University - Library Development Board. Mr. Middlemas received a Bachelors degree in History and Political Science from Pennsylvania State University, a Masters degree in Political Science from the University of Pittsburgh and a Master of Business Administration from Harvard Business School.

MARGARET S. HANSSON has been a director since April 1977, Chairman from 1983 to 2001, Vice President from 1992 to 2003, and was our Chief Executive Officer from September 23, 1983 to January 31, 1984. From 1976 to May 1981, she was President of GENAC, Inc., a Boulder, Colorado firm which she founded. From 1960 to 1975, Ms. Hansson was CEO and Chairman of Gerry Baby Products Company (formerly Gerico, Inc.), now a division of Evenflo. She is a Director of Wells Fargo Bank, Boulder, Colorado, Wells Fargo Banks, PC, Colorado Capital Alliance, Realty Quest, Inc. (now RQI, Inc.), and the Boulder Technology Incubator. Ms. Hansson is currently President of two companies, Adrop, LLC and Erth, LLC, companies engaged in development of a centrifuge for water purification systems. Ms. Hansson received her Bachelor of Arts degree from Antioch College.

RICHARD L. GUIDO served as a director from July 1996 through August 31, 2003, and on February 13, 2004 was appointed to fill a vacancy on the board. Mr. Guido was an employee of INCO Securities Corporation, a 5.5% stockholder, from 1980 through August 2003, and previously served on our board pursuant to a voting agreement between INCO and us that is no longer in effect. Mr. Guido was Associate General Counsel of Inco Limited and President, Chief Legal Officer and Secretary of Inco

United States, Inc. Mr. Guido is a Director on the American-Indonesia Chamber of Commerce and the Canada-United States Law Institute. Mr. Guido received a Bachelor of Science degree from the United States Air Force Academy, a Master of Arts degree from Georgetown University, and a Juris Doctor degree from the Catholic University of America.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information concerning the compensation received by or awarded to (i) our chief executive officer and (ii) our other executive officers for the fiscal years ended August 31, 2003, 2002 and 2001:

<TABLE>
<CAPTION>

	Annual Compensation			
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)
<S>	<C>	<C>	<C>	<C>
Thomas P. Clark , CEO	2003	60,000	0	0
	2002	60,000	0	0
	2001	60,000	0	0
Mark W. Harding,	2003	80,000	0	0
President and CFO	2002	80,000	0	0
	2001	80,000	0	0

</TABLE>

Each director who is not an employee of Pure Cycle receives a payment of $10,000 for each full year in which he or she serves as a director, with an additional payment of $1,000 for each committee on which he or she serves, and $1,000 for serving as chairman of the board. An additional $500 is paid to each non-employee director for attendance at each board meeting and, if committee meetings are held separate from board meetings, $500 is paid for attendance at such committee meetings. Directors who are employees of Pure Cycle receive no additional compensation for serving as a director.

In addition to cash compensation, as part of the 2004 Equity Incentive Plan, each non-employee director will receive an option to purchase 5,000 shares of common stock upon election to the board, and an option to purchase 2,500 shares for each subsequent full year in which he or she serves as a director.

The functions to be performed by the audit committee include the appointment, retention, compensation and oversight of the Company's independent auditors, including pre-approval of all audit and non-audit services to be performed by such auditors.

Effective February 13, 2004, the Company appointed a compensation committee. The functions to be performed by the compensation committee include establishing in the compensation of officers and directors, and administering management incentive compensation plans.

Option Grants in Last Fiscal Year

There were no grants of stock options made during the fiscal year ended August 31, 2003 to our executive officers.

<TABLE>
<CAPTION>

Aggregated Option Exercises and Fiscal Year End Option Values

Named Officer	Acquired on Exercise	Value Received	Number of Unexercised Securities Underlying Options at 08/31/03 Exercisable/ Unexercisable	Value of Unexercised In-The-Money Options at 08/31/03 Exercisable/ Unexercisable
<S>	<C>	<C>	<C>	<C>
Thomas P. Clark	-	-	-	-
Mark W. Harding	-	-	975,000/25,000	$ 39,000/$1,000

</TABLE>

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERSHIP AND MANAGEMENT

The following table sets forth, as of May 31, 2004, the beneficial ownership of our issued and outstanding common stock and Series A-1 Preferred Stock by (i) each person who owns of record (or we know to own beneficially) 5% or more of each such class of stock, (ii) each of our directors, (iii) each of our executive officers and (iv) all directors and executive officers as a group. Except as otherwise indicated, we believe that each of the beneficial owners of the stock listed has sole investment and voting power with respect to such shares, based on information provided by such holders

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner	Common Stock # of Shares	Common Stock %	Series A-1 Preferred Stock # of Shares	Series A-1 Preferred Stock %
<S>	<C>	<C>	<C>	<C>
Thomas P. Clark 8451 Delaware St. Thornton, CO 80260	2,546,485	31.3%		
George M. Middlemas 225 W. Washington, #1500 Chicago, IL 60606	1,842,114 (1)(2)	19.8%		
Harrison H. Augur P.O. Box 4389 Aspen, CO 81611	53,166 (3)	0.7%		
Margaret S. Hansson 2220 Norwood Avenue Boulder, CO 80304	824,600 (4)	9.2%		
Richard L. Guido 121 Antebellum Drive Meridianville, AL 35759	0	0		
Mark W. Harding 8451 Delaware St. Thornton, CO 80260	1,021,000 (5)	10.9%		

Name and Address of Beneficial Owner	Common Stock # of Shares	Common Stock %	Series A-1 Preferred Stock # of Shares	Series A-1 Preferred Stock %
All Directors and Officers as a group (6 persons)	6,262,365 (6)	56.2%		
INCO Securities Corporation 145 King St. West, #1500 Toronto, Ontario Canada M5H4B7	470,000 (7)	5.5%		
Apex Investment Fund II, L.P. ("Apex") 225 W. Washington #1500 Chicago, IL 60606	1,708,779 (2)(8)	18.5%	408,000	38.6%
Environmental Venture Fund Liquidating Trust ("EVFund") 233 S. Wacker Drive Suite 9500 Chicago, IL 60606	629,133 (2)(9)	7.5%		
Environmental Private Equity Fund II, L.P. ("EPFund") 233 S. Wacker Drive Suite 9500 Chicago, IL 60606	712,142(2)(10)	8.4%	600,000	56.7%
The Productivity Fund II, L.P. ("PFund") 233 S. Wacker Drive Suite 9500 Chicago, IL 60606	478,945(2)(11)	5.8%		

<FN>
(1) Includes 100,000 shares of common stock issuable upon exercise of options and 1,708,781 shares of common stock which Mr. Middlemas may be deemed to own but of which he disclaims beneficial ownership as described in more detail in footnote (2) below.

(2) Each of the Apex, PFund, and EPFund (the "Apex/FA Partnerships") is controlled through one or more partnerships. The persons who have or share control of such partnerships are referred to herein as "ultimate general

partners." The ultimate general partners of Apex are: First Analysis Corporation, a Delaware corporation ("FAC"), Stellar Investment Co. ("Stellar"), a corporation controlled by James A. Johnson ("Johnson"); George Middlemas ("Middlemas"); and Chartwell Holdings Inc. ("Chartwell"), a corporation controlled by Paul J. Renze ("Renze"). The ultimate general partners of PFund are FAC and Bret R. Maxwell ("Maxwell"). The ultimate general partners of EPFund are FAC, Maxwell, RS Investment Management ("RSIM"), Argentum Environmental Corporation ("AEC") and Schneur Z. Genack, Inc. ("SZG"). A wholly - owned subsidiary of FAC is a broker-dealer registered with the National Association of Securities Dealers, Inc.

EVFund is controlled through its liquidating trustee, which is FAC.

By reason of its status as ultimate general partner of each of Apex/FA Partnerships and liquidating trustee of EVFund (together with the Apex/FA Partnerships, the "Apex/FA Entities"), FAC may be deemed to be the indirect beneficial owner of 3,528,999 shares of common stock, or 36.4% of such shares. By reason of his status as the

majority stockholder of FAC, F. Oliver Nicklin, Jr. may also be deemed to be the indirect beneficial owner of such shares. By reason of their status as ultimate general partners of Apex, Stellar (and through Stellar, Johnson), Middlemas, Chartwell (and through Chartwell, Renze) may be deemed to be the indirect beneficial owners of 1,708,779 shares of common stock, or 18.6% of such shares. When these shares are combined with his personal holdings of 33,333 shares of common stock and his currently exercisable option to purchase 100,000 shares of common stock, Middlemas may be deemed to be the beneficial owner (directly with respect to his shares and the option shares and indirectly as to the balance) of 1,842,112 shares of common stock, or 19.8% of such shares.

By reason of his status as a general partner of an ultimate general partner of PFund and EPFund, Maxwell may be deemed to be the indirect beneficial owner of 1,191,087 shares of common stock, or 14.2% of such shares.

By reason of RSIM's, AEC's and SZG's status as ultimate general partners of EPFund, RSIM, AEC, SZG, and their and their controlling persons may be deemed to be the indirect beneficial owners of 712,142 shares of common stock, or 8.7% of such shares.

Each of the Apex/FA Entities disclaims beneficial ownership of all shares of common stock described herein except those shares that are owned by that entity directly. We understand that each of the other persons named as an officer, director, partner, trustee or other affiliate of any Apex/FA Entity disclaims beneficial ownership of all the shares of common stock described herein, except for Middlemas with respect to the shares and options to purchase 133,333 shares owned by him.

Each of the Apex/FA Entities disclaims the existence of a "group" among any or all of them and further disclaims the existence of a "group" among any or all of them and any or all of the other persons named as an officer, director, partner, trustee or those affiliates of any of them, in each case within the meaning of Section 13(d) of the 1934 Act.

The information herein was derived from information provided to us by representatives of the Apex/FA Entities.

(3) Includes (i) 30,000 shares of common stock issuable upon exercise of warrants and (ii) 2,500 shares of common stock held by Patience Partners, L.P., a limited partnership in which a foundation controlled by Mr. Augur is a 60% limited partner and Patience Partners LLC is a 40% general partner. Patience Partners LLC is a limited liability company in which Mr. Augur owns a 50% membership interest.

(4) Includes 800,000 shares of common stock issuable upon exercise of options, 200,000 of the shares underlying these options are being sold in this offering.

(5) Includes 100,000 shares of common stock issuable upon exercise of options.

(6) Includes 1,875,000 shares of common stock issuable upon exercise of options, 880,619 shares of common stock issuable upon exercise of warrants and 237,777 shares of common stock purchasable on conversion of outstanding Series A-1 Convertible Preferred Stock. The directors and officers disclaim beneficial ownership of 1,708,781 such shares.

(7) Consists of 470,000 shares of common stock issuable upon exercise of warrants.

(8) Includes 850,618 shares of common stock issuable upon exercise of warrants and 226,666 shares of common stock purchasable on conversion of 408,000 shares of Series A-1 Convertible Preferred Stock.

(9) Includes 260,977 shares of common stock issuable upon exercise of warrants.

(10) Includes 30,140 shares of common stock issuable upon exercise of warrants and 333,333 shares of common stock purchasable on conversion of 600,000 shares of Series A-1 Convertible Preferred Stock.

(11) Includes 178,377 shares of common stock issuable upon exercise of warrants.
</TABLE>

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

From time to time since December 6, 1987, Thomas P. Clark, our president and a director, loaned funds to us to cover operating expenses. We have treated these funds as unsecured debt, and the promissory notes, with interest at 8.36% and 9.01% per annum issued to Mr. Clark on various dates are payable October 1, 2007. To date, Mr. Clark has loaned us $310,720, of which $43,350 has been repaid, leaving a balance of $267,370. As of February 29, 2004, accrued interest on the notes totaled $278,792. The board members, other than Mr. Clark, determined that all loans were made at market rates.

In 1996 and 1997, we entered into loan agreements with five related party investors: Apex, EVFund, EPFund and PFund, each a 5% stockholder, and Harrison Augur, a director. The loan balances to such persons totaled $1,109,061 at February 29, 2004. The loans are unsecured and bear interest at the rate of 10.25% and prime plus 2%. The notes mature August 31, 2007. In connection with the loan agreements, we issued warrants to such persons to purchase 402,300 shares of our common stock with an exercise price of $1.80 per share. Such warrants expire August 31, 2007. These loans are being repaid with the proceeds of this offering, and the common stock underlying these warrants is being sold by selling stockholders in this offering.

In 1995, we extended a line of credit to the District, a related party. Three of our officers and employees are directors of the District. The loan provides for borrowings of up to $250,000, is unsecured, bears interest based on the prevailing prime rate plus 2% and matures on December 31, 2004. The balance of the note receivable at February 29, 2004 was $406,782, including accrued interest.

DESCRIPTION OF SECURITIES

The summary of the terms of the shares of our capital stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Certificate of Incorporation, as amended (the "Certificate"), and our Bylaws, as amended (the "Bylaws"), both of which may be further amended from time to time and both of which are incorporated herein by reference. References to the "DGCL" are to the Delaware General Corporation Law, as amended.

GENERAL

We are authorized to issue 250,000,000 shares of stock, consisting of 225,000,000 shares of common stock, $.00333 par value per share, and 25,000,000 shares of preferred stock, par value $0.001 per share. We have designated 1,600,000 shares of our preferred stock as Series A-1 Convertible Preferred Stock and 432,514 shares of our preferred stock as Series B Preferred Stock. As of February 29, 2004, there were 8,145,087 shares of common stock issued and outstanding, 1,058,000 shares of Series A-1 Preferred Stock issued and outstanding, and 432,514 shares of Series B Preferred Stock issued and outstanding.

COMMON STOCK

All of the outstanding shares of common stock are fully paid and nonassessable. Each share of common stock has an equal and ratable right to receive dividends when declared by our board of directors out of assets legally available for that purpose and subject to the dividend obligations of Pure Cycle to holders of any preferred stock then outstanding.

In the event of a liquidation, dissolution or winding up, the holders of our common stock are entitled to share equally and ratably in the assets available for distribution after payment of all liabilities, and subject to any prior rights of any holders of preferred stock outstanding at that time.

The holders of common stock have no preemptive, subscription, conversion or redemption rights, and are not subject to further calls or assessments. Each share of common stock is entitled to one vote in the election of directors and on all other matters submitted to a vote of stockholders. Cumulative voting in the election of directors is not permitted. Meetings of our stockholders may be called on no fewer than 10 days nor more than 50 days notice. The presence of a majority of the shares outstanding, in person or by proxy, is required to establish a quorum and conduct business at meetings of the stockholders.

On April 12, 2004, our stockholders authorized the board of directors to implement a reverse stock split. On April 12, 2004, our board approved a 1-for-10 reverse stock split with a record date of

April 23, 2004. The reverse stock split was effective on April 26, 2004. All information in this prospectus reflects this reverse stock split.

SERIES A-1 CONVERTIBLE PREFERRED STOCK

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding up of Pure Cycle, the holders of shares of Series A-1 Preferred Stock will be entitled to be paid, before any distribution or payment is made upon any of our other equity securities, $2.00 per share less an amount equal to all dividends paid thereon. This liquidation preference will only be paid from revenues derived from the sale of Export Water (as defined) or the proceeds of a disposition of such asset. Holders of Series A-1 Preferred Stock are then entitled to participate with the holders of common stock in any other distribution or payment made to the holders of common stock, whether from the Export Water or otherwise, on a pro rata basis with holders of common stock determined on an as-converted basis.

Dividends

Holders of the Series A-1 Preferred Stock are entitled to receive dividends, when and as declared by the Company's board of directors, in a total amount of $2.00 per share. The Series A-1 Preferred Stock will only earn and accrue dividends when and if Gross Proceeds (as defined), of between $23,036,233 and $32,026,232 after payment of royalties, are received from the marketing, sale or other disposition of Export Water. Holders of Series A-1 Preferred Stock are entitled to receive 35.6% of Gross Proceeds received in the ranges set forth above until total dividends equal $3,200,000. Until all accrued dividends on the Series A-1 Preferred Stock have been paid, we may not declare or pay dividends on the common stock or the Series B Preferred Stock. If we sell, transfer or otherwise convey our interest in the Export Water, the Series A-1 Preferred Stock will cease to accrue dividends.

Conversion

At the option of the holder, each share of Series A-1 Preferred Stock is convertible into .55556 shares of common stock, subject to proportional adjustments in the event of combinations or consolidations of common stock, and the merger or reorganization of Pure Cycle.

In the event that (i) the full dividends on the Series A-1 Preferred Stock have been paid, (ii) we have transferred our interest in the Export Water, or (iii) a majority of the Board and the holders of a majority of the Series A-1 Preferred Stock determine that it is no longer economically feasible to develop the Export Water, all shares of Series A-1 Preferred Stock will automatically convert into shares of common stock on a 1 for .55556 basis, subject to proportional adjustments in the event of combinations or consolidations of common stock, and the merger or reorganization of Pure Cycle.

Voting Rights

Holders of Series A-1 Preferred Stock are entitled to vote together with holders of common stock on all matters on which holders of common stock are entitled to vote. In any stockholder vote, each holder of Series A-1 Preferred Stock will have a number of votes equal to the number of shares of common stock that his or her shares are convertible into on the record date multiplied by 1.25. Without the approval of the holders of a majority of the outstanding Series A-1 Preferred Stock, we cannot:

- alter or change terms, preferences or privileges of Series A-1 Preferred Stock;

- increase or decrease the number of authorized shares of Series A-1 Preferred Stock;

- authorize a new security ranking prior to or on parity with the Series A-1 Preferred Stock as to dividends from earnings from the Export Water or the distribution of the Export Water or the proceeds therefrom;

- effect any transaction that would have the effect of decreasing our surplus, as defined in the DGCL, by more than $500,000 or that would cause our surplus to be equal to less than $1,000,000;

- make any expenditure in excess of $50,000 in any one month at any time that the surplus is equal to or less than $1,000,000; and

- merge or consolidate with or into one or more corporations or business entities if we are not the surviving entity.

Right of Purchase

We have the right to purchase shares of Series A-1 Preferred Stock in the public market at such prices as may be available in the public market and the right at any time to acquire any Series A-1 Preferred Stock from holders on such terms as may be agreeable to holders.

SERIES B PREFERRED STOCK

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding up of Pure Cycle, the holders of shares of Series B Preferred Stock will be entitled to be paid, before any distribution or payment is made upon any other equity securities of Pure Cycle, $1.00 per share less an amount equal to all dividends paid thereon; provided, however, that with respect to the Export Water, the
Series B Preferred will be subject to and junior to the rights and preferences of the holders of the Series A-1 Preferred Stock in the Export Water and the proceeds of disposition of such assets.

Dividends

Holders of the Series B Preferred Stock are entitled to receive dividends, when and as declared by Pure Cycle's board of directors, in a total amount of $1.00 per share. The Series B Preferred Stock will only earn and accrue dividends when Pure Cycle receives proceeds from the marketing, sale or other disposition of the Export Water or our interest in the Export Water in an amount greater than $35,000,000. Dividends are required to be paid when Pure Cycle receives such proceeds. Until all accrued dividends on the Series B Preferred Stock have been paid, we may not declare or pay dividends on the common stock. Dividends may accrue on Series B Preferred Stock based on proceeds from the marketing, sale or other disposition of Export Water but may not be paid unless all dividends accrued on the Series A-1 Preferred Stock have been paid in full.

Redemption

The Series B Preferred Stock is redeemable for cash at our option at a redemption price equal to $1.00 per share less an amount equal to all dividends paid thereon. The Series B Preferred Stock may not be redeemed using proceeds from the sale of Export Water unless it would be permissible under the Certificate to use such assets to pay a dividend on the Series B Preferred Stock. Pure Cycle may redeem

Series B Preferred Stock in lieu of payment of dividends thereon. Holders of Series B Preferred Stock do not have any right to require Pure Cycle to redeem any or all shares of the Series B Preferred Stock.

Voting Rights

Holders of Series B Preferred Stock generally will have no voting rights except as required by law. Certain changes to the terms of the Series B Preferred Stock that would be materially adverse to the rights of holders of the Series B Preferred Stock cannot be made without the approval of the holders of a at least 66 2/3% of the outstanding Series B Preferred Stock voting separately as a class. These consist of the following:

- alter or change terms, preferences or privileges of Series B Preferred Stock; and

- authorize a new security ranking senior to the Series B Preferred Stock as to dividend or liquidation rights.

In addition, when dividends on the Series B Preferred Stock have accrued but have not been declared by the Board, the holders of the Series B Preferred Stock will be entitled to vote with the holders of common stock at any meeting of stockholders held during the period such dividends remain in arrears. Each share of Series B Preferred Stock will have one vote when voting with the common stock.

Right of Purchase

We have the right to purchase shares of Series B Preferred Stock in the public market at such prices as may be available in the public market and the right at any time to acquire any Series B Preferred Stock from holders on such terms as may be agreeable to holders.

WARRANTS

At May 31, 2004, there were warrants outstanding to purchase a total of

2,440,284 shares of common stock. This includes warrants to purchase 908,778 shares of common stock that will be exercised by selling stockholders in connection with this offering. There is no public market for our warrants. Our outstanding warrants contain anti-dilution provisions that adjust the exercise price of the warrants in the event that we issue additional shares of common stock without consideration or for a net consideration per share less than the exercise prices in effect for the warrants immediately prior to such issuance. The following table summarizes information on our outstanding warrants:

<TABLE>
<CAPTION>

DATE OF GRANT	NUMBER OF SHARES UNDERLYING WARRANTS	EXERCISE PRICE	EXPIRATION DATE
<S>	<C>	<C>	<C>
12/11/1990	79,800	$ 1.80	*
02/12/1991	550,200	$ 1.80	*
09/23/1991	108,000	$ 1.80	*
11/20/1991	120,000	$ 1.80	*
12/10/1991	1,059,999	$ 1.80	*
08/12/1992	120,000	$ 1.80	*
08/30/1996	166,984	$ 1.80	08/30/2007
07/18/1997	179,999	$ 1.80	08/30/2007
08/08/1997	55,302	$ 1.80	08/30/2007
	2,440,284		

<FN>

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* Expire six months from the earlier of (i) the date all of the Export Water is sold or otherwise disposed of, (ii) the date the Comprehensive Amendment Agreement is terminated with respect to the original holder of this Warrant, or (iii) the date on which the Company makes the final payment pursuant to Section 2.1(r) of the Comprehensive Amendment Agreement.
</TABLE>

We recently received an inquiry from a former warrantholder pertaining to the status of a warrant to purchase 160,000 shares of common stock we issued on August 12, 1991. We believe this warrant expired in August 1997 and have not treated it or the shares of common stock underlying it as outstanding for purposes of calculating our capitalization since August 1997. There can be no assurance, however, that we would prevail if the warrantholder pursued enforcement of such warrant.

REGISTRATION RIGHTS

We are party to a Stock Purchase Agreement dated December 10, 1991 (the "Stock Purchase Agreement"), together with Apex Investment Fund II, L.P., Environmental Venture Fund Liquidating Trust and The Productivity Fund II, L.P. The stockholders who are party to the Stock Purchase Agreement are entitled to piggyback registration rights covering the shares of common stock issued to them pursuant to the Stock Purchase Agreement and the shares of common stock issuable to them upon exercise of warrants granted to them pursuant to the Stock Purchase Agreement, subject to certain limitations. The registration rights granted under the Stock Purchase Agreement expire on December 10, 2006. The shares issued pursuant to this Stock Purchase Agreement are being registered in this offering

and accordingly, the registration right contained in this Stock Purchase Agreement will be satisfied upon consummation of this offering.

ANTI-TAKEOVER PROVISIONS

We are subject to the provisions of Section 203 of the DGCL, which restrict certain business combinations with interested stockholders even if such a combination would be beneficial to all stockholders. In general, Section 203 would require a two-thirds vote of stockholders for any business combination (such as a merger or sale of all or substantially all of our assets) between us and an "interested stockholder" unless such transaction is approved by a majority of the disinterested directors or meets certain other requirements. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of our voting stock. These provisions could deprive stockholders of an opportunity to receive a premium for their common stock as part of a sale of us or may otherwise discourage a potential acquirer from attempting to obtain control of us.

TRANSFER AGENT

Our transfer agent is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401, telephone (303) 262-0600.

SELLING STOCKHOLDERS

The following table sets forth certain information as of May 31, 2004 regarding the Selling Stockholders in this offering.

<TABLE>
<CAPTION>

NAME	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	SHARES OFFERED IN THIS OFFERING	NUMBER OF SHARES BENEFICIALLY OWNED AFTER THIS OFFERING(1)	PERCENT OF OUTSTANDING AFTER THIS OFFERING
<S>	<C>	<C>	<C>	<C>
Inco Securities Corporation	470,000	470,000	-0-	*
Landmark Water Partners, L.P.	160,000	136,573	23,427	*
Alan C. Stormo	36,000	18,000	18,000	*
Dianna Sue Pettyjohn	36,000	7,500	28,500	*
Beverly A. Beardslee	18,000	18,000	-0-	*
Robert Douglas Beardslee	9,000	9,000	-0-	*
Bradley Kent Beardslee	9,000	9,000	-0-	*
Fayyaz & Company, Inc.	60,000	30,000	30,000	*
International Properties, Inc.	60,000	60,000	-0-	*
Apex Investment Fund II, L.P.	1,708,779	484,210	1,224,569	11.06%
Environmental Venture Fund Liquidating Trust	629,133	178,276	450,857	4.07%
The Productivity Fund II, L.P.	478,945	135,717	343,228	3.10%
Landmark Water Partners II, L.P.	70,000	38,533	31,467	*
Proactive Partners, L.P.	80,124	80,124	-0-	*
Environmental Private Equity Fund II, L.P.	712,142	201,797	510,345	4.61%
Gregory M. Morey	16,024	16,024	-0-	*
Don Fogel	16,024	16,024	-0-	*
George Middlemas	133,333	100,000	33,333	*
Margaret S. Hansson	824,600	200,000	624,600	5.64%
Susan Byrom Evans	233,333	26,667	206,666	1.87%
Carol Byrom Conrad	233,333	26,700	206,633	1.87%
Fletcher L. Byrom, Jr.	233,333	22,222	211,111	1.91%
Thomas P. Clark	2,546,485	100,000	2,446,485	22.09%
Mark W. Harding	1,021,000	121,000	900,000	8.13%
		2,505,367		

<FN>

_____

* Less than 1%.

(1) For purposes of calculating shares beneficially owned after this offering, it is assumed that shares being registered for the benefit of the selling stockholders have been sold pursuant to this offering. The selling stockholders may have sold, transferred or otherwise disposed of their offered shares since the date on

which they provided information in transactions exempt from the registration requirements of the Securities Act.
</TABLE>

Except as described below, none of the Selling Stockholders has, or has had within the last three years, any position, office, or other material relationship with the issuer.

Margaret S. Hansson, Thomas P. Clark, George Middlemas and Mark Harding are directors of Pure Cycle. Mr. Clark also serves as the chief executive officer and Mr. Harding serves as president and chief financial officer.

Susan Byrom Evans, Carol Byrom Conrad and Fletcher L. Byrom, Jr. are the adult children of Fletcher Byrom, who served as a director of Pure Cycle from 1988 until his retirement on February 13, 2004.

Apex Investment Fund II, L.P. ("Apex") is controlled by several general partners including George Middlemas, a director.

The EPFund is a party to a Voting Agreement, as amended and restated August 12, 1992. Pursuant to the voting agreement, Margaret Hansson and Thomas Clark (current directors) and Fletcher Byrom (retired director) have agreed to vote all of their shares of common stock in favor of a director candidate designated by EPFund. The current EPFund director candidate is George Middlemas.

Each of the Selling Stockholders or their affiliates (other than Don Fogel, Susan Evans, Carol Conrad, Fletcher Byrom, Tom Clark and Mark Harding) have at various dates prior to 1996 made an investment in Pure Cycle which resulted in the Selling Stockholder being entitled to a contingent return on such Selling

Stockholder's investment from the proceeds of the sale of Export Water pursuant to the Commercialization Agreement.

Apex, EVFund, EPFund and PFund hold promissory notes payable by us with aggregate principal and interest outstanding as of February 29, 2004 in the amount of $512,439. The notes are due in August 2007.

Apex, EV Fund, EP Fund, PFund, Gregory M. Morey and Proactive Partners, L.P. hold promissory notes payable by us with aggregate principal and interest outstanding as of February 29, 2004 in the amount of $596,622. The notes are due in August 2007.

PLAN OF DISTRIBUTION

Flagstone Securities is acting as representative of the underwriters named below. Subject to the terms and conditions described in an underwriting agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us and the selling stockholders, the number of shares listed opposite their names below.

<TABLE>
<CAPTION>

UNDERWRITERS	NUMBER OF SHARES
<S>	<C>
Flagstone Securities	
Total	3,205,367

</TABLE>

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to pay the representative an expense allowance of $30,000 on a non-accountable basis. We have also agreed to pay all expenses in connection with qualifying our securities offered hereby for sale under the laws of such states as the underwriters may designate and the filing fees incurred in registering the offering with the National Association of Securities Dealers, Inc., or NASD.

We and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The representative has advised us and the selling stockholders that the underwriters propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the offering, the public offering price, concession and discount may be changed.

The table below shows the public offering price, underwriting discounts and commissions to be paid to the underwriters by us and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

<TABLE>
<CAPTION>

	PER SHARE	WITHOUT OPTION	WITH OPTION
<S>	<C>	<C>	<C>
Public offering price	$	$	$
Underwriting discounts and commissions	$	$	$

Proceeds, before expenses, to Pure Cycle $ $ $
</TABLE>

The table below shows the public offering price, underwriting discounts and commissions to be paid to the underwriters by the selling stockholders and proceeds before expenses to the selling stockholders.

<TABLE>
<CAPTION>

	PER SHARE
<S>	<C>
Public offering price	$
Underwriting discounts and commissions	$
Proceeds, before expenses, to the selling stockholders	$

</TABLE>

Option to Purchase Additional Shares

We have granted an option to the underwriters to purchase up to an additional 480,805 shares if the underwriters sell more shares in this offering than the total number set forth in the table above. The underwriters may exercise that option for 30 days. If any shares of common stock are purchased pursuant to this option, the underwriters will severally purchase shares of common stock in approximately the same proportion as set forth in the table above.

No Sales of Similar Securities

We, our executive officers, directors and Apex, EVFund, EPFund and PFund will agree with the underwriters not to, directly or indirectly, offer, sell, transfer or otherwise dispose of any shares of common stock, or any securities convertible into, exchangeable for or that represent the right to receive shares of common stock, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representative on behalf of the underwriters.

Right of First Refusal

We have agreed that until the first anniversary of the closing of this offering, in the event that at any time or from time to time during such period we elect to sell equity securities through a public or private offering that utilizes a placement agent or underwriter, we shall in each case offer to Flagstone Securities the opportunity to act as underwriter or placement agent of such offering. The fees that Flagstone Securities charges us for its services in such capacity must be comparable to fees that would be charged by other registered broker-dealers for similar offerings.

Nasdaq Listing

We have applied to have our common stock approved for listing on the Nasdaq SmallCap under the symbol "PCYO."

Price Stabilization and Short Positions

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the underwriters may engage in transactions that stabilize the price of the common stock. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress. The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq SmallCap, in the over-the-counter market or otherwise.

Certain persons participating in this offering may also engage in passive market making transactions in the common stock on the Nasdaq SmallCap. Passive market making consists of displaying bids on the Nasdaq SmallCap limited by the prices of independent market makers and affecting purchases limited by such prices and in response to order flow. Rule 103 of Regulation M under the

Securities Exchange Act of 1934 limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of the common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

LEGAL MATTERS

The validity of the securities offered by this prospectus will be passed upon by Davis Graham & Stubbs LLP, Denver, Colorado, and Richards, Layton & Finger, P.A., Wilmington, Delaware. Certain matters relating to Colorado water law will be passed upon by Petrock & Fendel, P.C., Denver, Colorado. Certain matters in connection with this offering will be passed upon for the underwriters by Davis & Gilbert LLP.

EXPERTS

The audited financial statements for Pure Cycle as of August 31, 2003 and 2002 and for the two years in the period ended August 31, 2003 included in this prospectus have been audited by KPMG LLP, independent registered public accounting firm, for the periods set forth in their report with respect thereto, and are included, in reliance on the authority of that firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

Pure Cycle files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any of these documents at the Commission's public reference room at 450 Fifth Street N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC's website at http://www.sec.gov.
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You may receive a copy of any of these filings by writing or calling Pure Cycle Corporation, 8451 Delaware St., Thornton, Colorado 80260, telephone (303) 292-3456, and directed to the attention of Mark Harding, President.

<TABLE>
<CAPTION>

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM REPORT

The Board of Directors
Pure Cycle Corporation:

We have audited the accompanying balance sheets of Pure Cycle Corporation ("the Company") as of August 31, 2003 and 2002, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pure Cycle Corporation as of August 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Denver, Colorado
October 10, 2003,
except Note 13 which is dated April 26, 2004

<TABLE>
<CAPTION>

PURE CYCLE CORPORATION
BALANCE SHEETS

	August 31, 2003	August 31, 2002
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 525,780	$ 287,720
Trade accounts receivable	67,687	50,919
Total current assets	593,467	338,639
Investment in water and systems:		
Rangeview water supply (Note 3)	13,710,773	13,566,777
Paradise water supply	5,494,323	5,491,423
Rangeview water system (Note 3)	148,441	148,441
Investment in water and systems	19,353,537	19,206,641
Accumulated depreciation & depletion	(10,543)	(4,958)
Total water and water systems	19,342,994	19,201,683
Note receivable - related party, including accrued interest (Note 4)	399,902	385,716
Other assets	77,041	102,241
	$ 20,413,404	$ 20,028,279
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,244	$ 2,384
Accrued liabilities (Note 5)	43,528	19,495
Total current liabilities	51,772	21,879
Long-term debt - related parties, including accrued interest (Note 6)	4,889,545	4,713,270
Participating interests in Rangeview water supply (Note 3)	11,090,630	11,090,630
Stockholders' equity (Notes 7):		

Preferred stock, par value $.001 per share; authorized - 25,000,000 shares:		
Series A1 - 1,600,000 shares issued and outstanding	1,600	1,600
Series B - 432,514 shares issued and outstanding	433	433
Series D - 6,455,000 shares issued and outstanding	6,455	6,455
Series D1- 2,000,000 shares issued and outstanding in 2003	2,000	--
Common stock, par value 1/3 of $.01 per share; 135,000,000 shares authorized; 7,843,976 shares issued and outstanding	26,120	26,120
Additional paid-in capital	25,512,453	25,014,453
Accumulated deficit	(21,167,604)	(20,846,561)
Total stockholders' equity	4,381,457	4,202,500
	$ 20,413,404	$ 20,028,279

<FN>
See Accompanying Notes to Financial Statements
</TABLE>

<TABLE>
<CAPTION>
PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS

	Years ended August 31,	
	2003	2002
<S>	<C>	<C>
Water service revenues:		
Water usage revenues	156,217	156,026
Wastewater processing revenues	56,780	48,832
Revenue - Other	12,435	--
	225,432	204,858
Water service operating expense	(20,580)	(13,896)
Wastewater service operating expense	(10,692)	(13,896)
Other expense	(6,224)	--
Gross margin	187,936	177,066
General and administrative expense	(318,182)	(221,872)
Depreciation expense	(4,948)	(4,220)
Depletion expense	(637)	(738)
Operating income (loss)	(135,841)	(49,764)
Other income (expense):		
Interest income	16,263	22,181
Interest expense - related parties	(176,275)	(194,651)
Amortization of warrants	(25,200)	(25,200)
Other income	--	2,287
Total other income (expense)	(185,212)	(195,383)
Net loss	$ (321,043)	$ (245,147)
Basic and diluted net loss per common share	$ (0.04)	$ (0.03)
Weighted average common shares outstanding basic and diluted	7,843,976	7,843,976

<FN>
See Accompanying Notes to Financial Statements
</TABLE>

<TABLE>
<CAPTION>
PURE CYCLE CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended August 31, 2003 and 2002

	PREFERRED STOCK		COMMON STOCK		TREASURY STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at August 31, 2001	8,487,513	$ 8,488	7,843,976	$ 26,120	0	$ 0
Net loss	--	--	--	--	--	--
Balance at August 31, 2002	8,487,513	$ 8,488	7,843,976	$ 26,120	0	$ 0
Preferred Stock issued in Exchanges, net (Note 7)	2,000,000	2,000	--	--	(2,000,000)	(500,000)
Common Stock issued from treasury stock (Note 7)	--	--	--	--	2,000,000	500,000
Net loss	--	--	--	--	--	--
Balance at August 31, 2003	10,487,513	$ 10,488	7,843,976	$ 26,120	-	--

</TABLE>

<TABLE>
<CAPTION>

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>
Balance at August 31, 2001	$25,014,453	$ (20,601,414)	$ 4,447,647
Net loss	--	(245,147)	(245,147)
Balance at August 31, 2002	$25,014,453	$ (20,846,561)	$ 4,202,500
Preferred Stock issued in Exchanges, net (Note 7)	498,000	--	--
Common Stock Issued from treasury stock (Note 7)	--	--	500,000
Net loss	--	(321,043)	(321,043)
Balance at August 31, 2003	$25,512,453	($21,167,604)	$ 4,381,457

<FN>
See Accompanying Notes to Financial Statements
</TABLE>

<TABLE>
<CAPTION>

PURE CYCLE CORPORATION
STATEMENTS OF CASH FLOWS

	Years ended August 31,	
	2003	2002
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (321,043)	$ (245,147)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	4,948	4,220
Depletion expense	637	738
Change in accrued interest	162,089	178,741
Changes in operating assets and liabilities:		
Trade accounts receivable	(16,768)	(17,664)
Other assets	25,200	36,459
Accounts payable and accrued liabilities	29,893	3,885
Net cash used in operating activities	(115,044)	(38,768)
Cash used in investing activities-		
Investments in water supply	(146,896)	(87,342)
Investments in water systems	--	(21,830)
Net cash provided by investing activities	(146,896)	(109,172)
Cash flows from financing activities-		
Proceeds from sale of equity instruments	500,000	--
Net increase (decease) in cash and cash equivalents	238,060	(147,940)

Cash and cash equivalents beginning of year	287,720	435,660
Cash and cash equivalents end of year	$ 525,780	$ 287,720

<FN>
See Accompanying Notes to Financial Statements
</TABLE>

PURE CYCLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2003 and 2002

NOTE 1 - ORGANIZATION AND BUSINESS

Pure Cycle Corporation (Company) owns certain water assets and is providing water and wastewater services to customers located in the Denver metropolitan area (Service Area). The Company operates water and wastewater systems and its operating activities include designing, constructing, operating and maintaining systems serving customers in the Denver metropolitan area. The Company also owns patented water recycling technologies which are capable of processing wastewater into pure potable drinking water. The Company's focus continues to be to provide water and wastewater service to customers within its Service Area and the Company expects to expand its service to other areas throughout the Denver metropolitan area and the southwestern United States.

Although the Company believes it will be successful in marketing the water from one or both of its water projects, there can be no assurance that sales can be made on terms acceptable to the Company. The Company's ability to ultimately realize its investment in its two primary water projects is dependent on its ability to successfully market the water, or in the event it is unsuccessful, to sell the underlying water assets.

The Company believes that at August 31, 2003, it has sufficient working capital and financing sources to fund its operations for the next year or longer. There can be no assurances, however, that the Company will be successful in marketing the water from its two primary water projects in the near term. In the event sales are not achieved, the Company may sell additional participating interests in its water projects, incur additional short or long-term debt or seek to sell additional shares of common or preferred stock or stock purchase warrants, as deemed necessary by the Company, to generate working capital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
- ---

The Company recognizes construction project income using the percentage-of-completion method, measured by the contract costs incurred to date as a percentage of the estimated total contract costs. Contract costs include all direct material, labor, and equipment costs and those indirect costs related to contract performance such as indirect labor and supplies costs. If the construction project revenue is not fixed, the Company estimates revenues that are most likely to occur. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Billings in excess of costs and estimated earnings represent payments received on construction projects under which the work has not been completed. These amounts, if any, are recognized as construction progresses in accordance with the percentage-of-completion method.

The Company recognizes water usage revenues upon delivering water to customers. The Company recognizes wastewater processing revenues based on flat fees assessed per single family equivalent unit served. Costs of delivering water and providing wastewater service to customers are recognized as incurred. Revenues from the sale of water and wastewater taps is recognized when taps are sold.

Use of estimates
- ---

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

PURE CYCLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
August 31, 2003 and 2002

date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents
- ----------------

Cash and cash equivalents include all liquid debt instruments with an original maturity of three months or less.

Cash flows
- ----------

No cash was paid for interest or taxes in 2003 or 2002. See Note 6 for discussion regarding non cash exchange of common stock for preferred stock.

Long lived assets
- -----------------

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Retention of the conditional Paradise water rights is subject to periodic review of future use and satisfactory findings by the Colorado Water Court. In addition, legal issues relating to interstate water transfers and interbasin water transfers make the short-term realization of these assets unlikely. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company believes there are no impairments in the carrying amounts of its investments in water and water systems at August 31, 2003.

Water and wastewater systems
- ----------------------------

The Company capitalizes certain legal, engineering and permitting costs relating to the adjudication and improvement of its water assets.

Depletion and Depreciation of water assets
- --

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

Stock-Based Compensation
- ------------------------

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principals Board ("APB No. 25"), Accounting for Stock Issued to Employees. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards ("SFAS No. 123"), "Accounting for Stock-Based Compensation" as specified in SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123". The pro forma disclosure of net loss and loss per share required by SFAS No. 123 is shown below.

<TABLE>
<CAPTION>

	2003	2002
<S>	<C>	<C>
Net loss, as reported	(321,043)	(245,147)
Add: Stock-based employee compensation Expense included in reported net income	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all options and warrants	--	--
Pro forma net loss	($.04)	($.03)

</TABLE>

Income taxes

- ----------

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

Loss per common share
- ----------

Loss per common share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Convertible preferred stock and common stock options and warrants aggregating 6,774,688 common share equivalents outstanding as of August 31, 2003 have been excluded from the calculation of loss per share as their effect is anti-dilutive.

NOTE 3 - RANGEVIEW WATER SUPPLY AND SYSTEM
- ----------

Beginning in 1987, the Company initiated the purchase of the Rangeview water assets. From 1987 through 2003, the Company made payments to the sellers of the Rangeview water assets and capitalized costs incurred relating to the acquisition of the water assets totaling $12,038,161, and capitalized certain direct costs relating to improvements to the asset which include legal and engineering costs totaling $1,672,612.

In April 1996, the Company completed the purchase of the Rangeview water assets and entered into a water privatization agreement with the State of Colorado and the Rangeview Metropolitan District (the "District"), a related party, which enabled the Company to acquire ownership rights to a total gross volume of 1,165,000 acre feet of groundwater (approximately 11,650 acre feet per year), an option to

substitute 1,650 acre feet of surface water in exchange for a total gross volume of 165,000 acre feet of groundwater, and the use of surface reservoir storage capacity (collectively referred to as the "Export Water Supply").

In addition to the Export Water Supply, the Company entered into a water and wastewater service agreement ("The Service Agreements") with the District which grants the Company an eighty-five year exclusive right to design, construct, operate and maintain the District's water and wastewater systems. In exchange for designing, constructing, operating and maintaining the District's water and wastewater system, the Company will receive 95% of the District's water revenues remaining after payment of royalties which are currently 12% of gross revenues to the State Land Board (which may change in the future), 100% of the District's wastewater system development charges and 90% of the District's wastewater usage charges. The Company delivered approximately 47.3 and 54.5 million gallons of water to customers in the Service Area in fiscal 2003 and 2002, respectively. The Company processed approximately 6.95 and 3.7 million gallons of wastewater from customers within its Service Area during fiscal 2003 and 2002, respectively.

The Company capitalizes certain legal, engineering and other costs relating to the acquisition of the Rangeview Water Supply due to improvements of the water assets through adjudication and engineering services.

Participating interests in the Comprehensive Amendment Agreement (the "CAA"), in the aggregate, have the right to receive approximately $32 Million out of the proceeds of a sale or other disposition of the Export Water Supply. The State Land Board has a security interest in such water rights for obligations owed to it the Company under the CAA. As monies from the sale of the Export Water are received, they are required to be paid to the holders of the CAA participation interests, including holders of Series A-1 Preferred Stock, on a pari passu basis for the first approximately $32 Million. After payment of approximately $32 Million in participating interest pursuant to the CAA, LCH Inc., a company affiliated with the Company's CEO, has the right to receive the next $4,000,000 in proceeds in exchange for $950,000 in notes payable entered into between LCH and the Company in 1987 and 1988. The next $433,000 in proceeds are payable to the holders of the Company's Series B Preferred Stock. In 1994, the Company issued the Series B Preferred Stock in exchange for certain accounts payable totaling $433,000 to LC Holdings Inc. The total obligation of $36,240,000 is non-interest bearing, and if the Export Water is not sold, the

parties to the agreement have no recourse against the Company. If the Company does not sell the Export Water, the holders of the Series A-1, and Series B Preferred Stock are not entitled to payment of any dividend and have no contractual recourse against the Company.

The participating interests liability of $11.1 million represents the obligation recorded by the Company relating to actual cash financings received and costs incurred to acquire the Rangeview water supply. The remainder of the participating interests ($20.7 million) represent a contingent return to financing investors and certain preferred stock holders that will only be payable from the sale of Export Water and will be recognized if and when such sale occurs.

During fiscal 2003 and 2002, the Company had revenues from two significant customers that accounted for 81% and 11%, respectively of the Company's revenues during 2003 and 76% and 14%, respectively of revenues during 2002.

NOTE 4 - NOTE RECEIVABLE

In 1995, the Company extended a line of credit to the District, a related party. The loan provides for borrowings of up to $250,000, is unsecured, bears interest based on the prevailing prime rate plus 2% and matures on December 31, 2003. The balance of the note receivable at August 31, 2003 was $399,902, including accrued interest. The Company intends to extend the due date to December 31, 2004. Accordingly, the note has been classified as non-current.

NOTE 5 - ACCRUED LIABILITIES

During fiscal year ended August 31, 2003, the Company had accrued liabilities of $43,528, of which approximately $26,000 were for audit fees and the remainder was for operating trade accounts payables. During fiscal year ended August 31, 2002, the Company had accrued liabilities of $19,495, of which approximately 18,000 were for audit fees.

NOTE 6 - LONG-TERM DEBT

Long-term debt, including accrued interest, at August 31, 2003 and 2002 is comprised of the following:

<TABLE>
<CAPTION>

	2003	2002
<S>	<C>	<C>
Notes payable, including accrued interest to six related parties, due August 2007, interest at prime plus 2% (6.25% at August 31, 2003), unsecured	$ 503,439	$ 484,876
Notes payable, including accrued interest to five related parties, due August 2007, interest at 10.25%, unsecured, net of unamortized discount of $0 and $9,000, respectively	578,685	542,809
Note payable, to CEO, due October 2007, non-interest bearing, unsecured	26,542	26,542
Notes payable, including accrued interest, to CEO due October 2007, interest at 8.36% to 9.01%, unsecured	508,941	487,581
Notes payable, including accrued interest, to related party, due October, 2007, interest at the prime rate plus 3% (7.25% at August 31, 2003), secured by shares of the Company's common stock owned by the President	2,440,014	2,371,733
Notes payable, including accrued interest, to a related party, due August 2007, interest ranging from 7.18% to 8.04%, unsecured	831,924	799,729
Total long-term debt	$4,889,545	$4,713,270

</TABLE>

Aggregate maturities of long-term debt are as follows:

<TABLE>
<CAPTION>

Year Ending August 31,	Amount
<S>	<C>

</TABLE>

2007	1,914,048
2008 and thereafter	2,975,497
Total	$4,889,545

</TABLE>

In 1996 and 1997, the Company entered into loan agreements with eleven related party investors. The loan balances total $1,082,124 at August 31, 2003, the loans are unsecured, and bear interest at the rate of 10.25% and prime plus 2%. In connection with the loan agreements, the Company issued warrants to purchase 210,000 shares of the Company's common stock at $1.80 per share. A portion of the

proceeds received under the agreement ($45,000) was attributed to the estimated fair value of the warrants issued. The resulting discount is being amortized over the term of the loan. In 2001, the term of the warrants and debt was extended to 2007. The fair value of the warrants extension are being amortized over the revised term of the debt. See further discussion of the warrant in Note 7.

As of August 31, 2003, the CEO of the Company has pledged a total of 2,000,000 shares of the Company's common stock from his personal holdings as collateral on certain of the above notes payable.

NOTE 7 - STOCKHOLDERS' EQUITY

Preferred and Common Stock

The holders of the Series A-1 Convertible Preferred Stock are entitled to be paid a distribution amount equal to $2.00 per share represented by a Participating Interest in the CAA. Each share of Series A-1 Preferred Stock is convertible into .55556 shares of Common Stock at the election of the holders of the Preferred Stock or the Company under certain conditions. The holders of the Series B Preferred Stock are entitled to be paid a distribution of $1.00 per share from the disposition of the Rangeview asset after payment of the Series A-1 distribution. The holders of the Series D and D-1 have dividend rights equal to those of common stockholders and each such share is convertible into .1 share of Common Stock at the election of the holder. The preferred stockholders have liquidation priorities as defined in their certificates of designation.

In August 2003, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 2,000,000 shares of Series D-1 Preferred Stock to the Company's CEO, Mr. Thomas Clark in exchange for 200,000 shares of Common Stock owned by Mr. Clark. The Company sold 200,000 shares of the Company's Common Stock at $2.50 per share to eleven accredited investors, four of whom had previously invested with the Company. Proceeds to the Company were $500,000. The Series D-1 Preferred Stock does not earn dividends and is convertible into 200,000 shares of common stock at such time that the Company has sufficient shares of authorized Common Stock. The shares were issued under Section 4(2) of the Securities Act of 1933.

Stock Options

Pursuant to the Company's Equity Incentive Plan approved by stockholders in June of 1992, the Company granted Mr. Fletcher Byrom, Ms. Margaret Hansson, Mr. George Middlemas, and Mr. Mark Harding options to purchase 700,000, 800,000, 100,000, and 700,000 shares of common stock respectively at an exercise price of $1.80 per share. In April of 2001, the Board extended the expiration date of options granted to Mr. Fletcher Byrom, Ms. Margaret Hansson, Mr. George Middlemas and Mr. Mark Harding from August 2002 to August 2007. In connection with their extension of the expiration dates and whereas the related options were fully vested in April 2001, and whereas these options were not in the money at the time of their extension, no compensation expense was recognized for the extensions. Also in April 2001, the Board granted Mr. Harding options pursuant to employment arrangements outside the Equity Incentive Plan to purchase an additional 300,000 shares of common stock at an exercise price of $1.80 per share of which 225,000 vested immediately and 25,000 shares vest on each anniversary date of the grant over the following three years. Mr. Harding's new options also expire in August 2007.

No options were granted in fiscal year 2003.

A summary of the status of the Company's Equity Incentive Plan and other

compensatory options as of August 31, 2003 and 2002, and changes during the years then ended is presented below:

<TABLE>
<CAPTION>

	2003		2002	
FIXED OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	2,600,000	$ 1.80	2,600,000	$ 1.80
Granted	--	--	--	--
Outstanding at end of year	2,600,000	$ 1.80	2,600,000	$ 1.80
Options exercisable at year end	2,575,000	$ 1.80	2,550,000	$ 1.80
Weighted average fair value of options granted during the year		--		--

</TABLE>

The weighted average remaining contractual life of the Options Outstanding and Options Exercisable as of August 31, 2003 is 4 years.

No options were exercised during the years ended August 31, 2003 and 2002.

Warrants
- --------

In addition to the warrants discussed in Note 6, the Company issued warrants from 1990 through 1996 to purchase 2,230,300 shares of the Company's stock at $1.80 per share in connection with the sale of profits interests in the Rangeview project, which remain outstanding as of August 31, 2003. In 1996, all interests held in the Rangeview water rights were converted into participating interests in the CAA. The warrants expire 6 months after the payment of the participating interests in the Comprehensive Amendment Agreement ("CAA").

Certain related parties, who hold notes payable from the Company which aggregate a total of $1,082,124, as of August 31, 2003, extended the maturity date of the notes from August 2002 to August 2007. In connection with the extension of the maturity of the notes, the expiration date of the warrants was extended to August 2007. The $126,000 recorded in connection with extension of the warrants' expiration date is the fair value of the warrants as of April 9, 2001, calculated using a Black-Scholes option-pricing model with the following assumptions: no dividend yield; annualized expected volatility of 101%; and a weighted average risk-free interest rate of 4.65%. This amount is being amortized straight-line over the period August 2002 to August 2007 as the imputed consideration relating to the extension of the debt terms.

No warrants were exercised during the years ended August 31, 2003 and 2002.

NOTE 8 - SIGNIFICANT CUSTOMERS
- ----------------------------------

The Company had accounts receivable from two significant customers totaling approximately $56,546 and $7,187, respectively, as of August 31, 2003 and $38,700 and $12,200, respectively, as of August 31, 2002. The same customers accounted for approximately 81% and 11%, respectively of the Company's revenue during the year ended August 31, 2003 and approximately 76% and 14%, respectively of the Company's revenue during the year ended August 31, 2002.

NOTE 9 - INCOME TAXES
- -------------------------

The tax effects of the temporary differences that give rise to significant portions of the deferred tax assets and liabilities at August 31, 2003 and 2002 are presented below.

<TABLE>

<CAPTION>

	2003	2002
<S>	<C>	<C>
Deferred tax assets:		
Net operating loss carry forwards	$ 2,483,000	$ 2,423,000
Less valuation allowance	(2,483,000)	(2,423,000)
Net deferred tax asset	$ --	$ --

</TABLE>

The valuation allowance for deferred tax assets as of August 31, 2003 was $2,483,000. The net change in the valuation allowance for the year ended August 31, 2003 was a net increase of $60,000, primarily attributable to the net operating loss incurred during the year, expiration of a portion of net operating loss carry forwards, and difference in amortization. The deferred tax asset at August 31, 2003, for which a valuation allowance has been recorded, will be recognized, if ever, when realization is more likely than not.

The expected statutory tax rate applied to the book loss is equal to the increase in the net operating tax loss carry forwards less the expiration of any tax loss carry forwards. At August 31, 2003, the Company has estimated net operating loss carry forwards for federal income tax purposes of approximately $6,423,000, which are available to offset future federal taxable income, if any, through fiscal 2023.

NOTE 10 - INFORMATION CONCERNING BUSINESS SEGMENTS

The Company has two lines of business: one is the design and construction of water and wastewater systems pursuant to the Service Agreements to provide water and wastewater service to customers within the Service Area; and the second is the operation and maintenance of the water and wastewater systems which serve customers within the Service Area. The Company did not recognize construction revenues during fiscal years 2003 or 2002.

The accounting policies of the segments are the same as those of the Company, described in note 2. The Company evaluates the performance of its segments based on gross margins of the respective business units.

Segment information for the years ended August 31, 2003 and 2002 is as follows:

<TABLE>
<CAPTION>

	2003		2002	
	Service	Total	Service	Total
<S>	<C>	<C>	<C>	<C>
Revenues	$ 225,432	$ 225,432	$ 204,858	$ 204,858
Gross margin	187,936	187,936	177,066	177,066
Total assets	20,413,404	20,413,404	20,028,279	20,028,279
Capital expenditures	146,896	146,896	109,172	109,172

</TABLE>

NOTE 11 - RELATED PARTY TRANSACTIONS

During the years ended August 31, 2003 and 2002, the Company has occupied office space from a related party at no cost to the Company. Additionally, the Company has certain debt instruments between related parties (see notes 3, 4 and 5).

NOTE 12 - SUBSEQUENT EVENT TRANSACTION

Subsequent to fiscal year end August 31, 2003, subject to final governmental approvals, the Company entered into a long-term Water Service Agreement ("Agreement") whereby the Company will provide domestic water service to a new master planned community located in the Denver metropolitan area in Arapahoe County. The new community will be developed over several years and be composed of up to 4,000 single family residences. The Company will generate one-time revenues from the sale of water taps (currently $11,100 per tap) and annual revenues through the delivery of water. The agreement is expected to generate gross revenues of $44 million in tap fee revenues and approximately $2 million annually from water usage sales. The Company is responsible for

developing the associated infrastructure, which is expected to commence in the summer of 2003 to provide water service to the development and expects the tap fee revenues will provide sufficient capital to the Company to construct facilities necessary to deliver water to the development.

NOTE 13 - SUBSEQUENT EVENT - REVERSE STOCK SPLIT

Effective April 26, 2004, the Company completed a 1-for-10 reverse stock split for its common stock. All common share amounts and per share amounts have been restated to reflect the reverse stock split.

<TABLE>
<CAPTION>

PURE CYCLE CORPORATION
BALANCE SHEETS
February 29, 2004 and February 28, 2003

ASSETS	February 29, 2004 (unaudited)	August 31, 2003
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 338,599	$ 525,780
Trade accounts receivable	33,841	67,687
Total current assets	372,440	593,467
Investment in water and systems:		
Rangeview water supply	13,777,395	13,710,773
Paradise water supply	5,498,124	5,494,323
Rangeview water system	148,441	148,441
Accumulated depreciation & depletion	(13,325)	(10,543)
Total investment in water and systems	19,410,635	19,342,994
Note receivable, including accrued interest	406,782	399,902
Other assets	64,441	77,041
	$ 20,254,298	$ 20,413,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,550	8,244
Accrued liabilities	21,100	43,528
Total current liabilities	44,650	51,772
Long-term debt - related parties, including accrued interest	4,976,511	4,889,545
Participating interests in Rangeview water rights	11,090,630	11,090,630
Stockholders' equity:		
Preferred stock, par value $.001 per share; authorized - 25,000,000 shares:		
Series A1 - 1,058,000 and 1,600,000 shares issued and outstanding, respectively	1,058	1,600
Series B - 432,514 shares issued and outstanding	433	433
Series D - 6,455,000 shares issued and outstanding	6,455	6,455
Series D1- 2,000,000 shares issued and outstanding	2,000	2,000
Common stock, par value 1/3 of $.01 per share; authorized - 135,000,000 shares; 8,145,087 and 7,843,976 shares issued and outstanding, respectively	27,123	26,120
Additional paid-in capital	25,511,992	25,512,453
Accumulated deficit	(21,406,554)	(21,167,604)
Total stockholders' equity	4,142,507	4,381,457
	$ 20,254,298	$ 20,413,404

<FN>
See Accompanying Notes to the Financial Statements
</TABLE>

<TABLE>
<CAPTION>

PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS
Six Months Ended February 29, 2004 and February 28, 2003

	Six months ended	
	February 29, 2004	February 28, 2003
<S>	<C>	<C>
Water service revenue		
Water usage revenues	$ 55,314	$ 77,225
Wastewater usage fees	27,002	26,587
Revenues - other	3,415	--
	85,731	103,812
Water service operating expense	(5,190)	(5,719)
Wastewater service operating expense	(3,819)	(5,013)
Consulting services expense	(2,329)	--
Gross margin	74,393	93,080
General and administrative expense	(219,302)	(124,556)
Depreciation expense	(2,474)	(2,482)
Depletion expense	(308)	(826)
Other income (expense):		
Interest income	8,307	8,556
Interest expense related parties	(86,966)	(88,528)
Interest expense other	(12,600)	(12,600)
Net loss	$ (238,950)	$ (127,356)
Basic and diluted net loss per common share	$ (0.03)	$ (0.02)
Weighted average common shares outstanding	8,056,418	7,843,976

<FN>
See Accompanying Notes to the Financial Statements
</TABLE>

<TABLE>
<CAPTION>

PURE CYCLE CORPORATION
STATEMENTS OF CASH FLOWS
Six Months Ended February 29, 2004 and February 28, 2003

	Six months ended	
	February 29, 2004	February 28, 2003
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (238,950)	$ (127,356)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation on water systems	2,474	2,482
Depletion expense	308	826
Increase (decrease) in accrued interest on note receivable	(6,880)	(7,166)
Increase in accrued interest on long term debt and other non-current liabilities	86,966	88,528
Changes in operating assets and liabilities:		
Trade accounts receivable	33,846	23,284
Other assets	12,600	12,600
Accounts payable and accrued liabilities	(7,122)	(2,455)
Net cash used in operating activities	(116,758)	(9,257)

Cash flows provided by (and in) from investing activities:		
Investments in water supply	(70,423)	(95,716)
Investment in Rangeview water system	--	--
Net cash used in investing activities	(70,423)	(95,716)
Cash flows from financing activities:		
Net decrease in cash and cash equivalents	(187,181)	(104,973)
Cash and cash equivalents beginning of period	525,780	287,720
Cash and cash equivalents end of period	$ 338,599	$ 182,747

<FN>
See Accompanying Notes to the Financial Statements
</TABLE>

PURE CYCLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
Six Months Ended February 29, 2004 and February 28, 2003

NOTE 1 - ACCOUNTING PRINCIPLES

The balance sheet as of February 29, 2004 and the statements of operations and statements of cash flows for the six month periods ended February 29, 2004 and February 28, 2003 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows at February 29, 2004 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's fiscal year 2003 Annual Report on Form 10-KSB. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 - STOCKHOLDERS' EQUITY

In August 2003, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 2,000,000 shares of Series D-1 Preferred Stock to the Company's CEO, Mr. Thomas Clark, in exchange for 200,000 shares of Common Stock owned by Mr. Clark. The Company sold 200,000 shares of the Company's Common Stock at $2.50 per share to eleven accredited investors, four of whom had previously invested with the Company. Proceeds to the Company were $500,000. The Series D-1 Preferred Stock does not earn dividends and is convertible into 200,000 shares of common stock at such time that the Company has sufficient shares of authorized Common Stock. The shares were issued under Section 4(2) of the Securities Act of 1933.

During the six months ended February 29, 2004, the Company issued 301,111 shares of Common Stock in exchange for 542,000 shares of Series A-1 Preferred Stock, pursuant to the certificate of designation of the Series A-1 Preferred Stock. The holders of the 542,000 shares of Series A-1 Preferred Stock surrendered the shares to the Company for retirement.

NOTE 3 - WATER CONTRACT

On October 31, 2003, the Company entered into a long-term Water Service Agreement ("Agreement") whereby the Company will provide domestic water service to a new master planned community located in the Denver metropolitan area in Arapahoe County. The new community will be developed over several years and be composed of up to 4,000 single family residences. The Company will generate one-time revenues from the sale of water taps (currently $11,100 per tap) and annual revenues through the delivery of water. The agreement is expected to generate gross revenues of $44 million in tap fee revenues and approximately $2 million annually from water usage sales. The Company is responsible for developing the associated infrastructure, which is expected to commence in the

summer of 2004 to provide water service to the development and expects the tap fee revenues will provide sufficient capital to the Company to construct facilities necessary to deliver water to the development.

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For small business entities, the provisions of this Interpretation must be applied at the end of the first reporting period that ends after December 15, 2004. The Company has determined it is not party to a variable interest entity.

In June 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of a nonpublic entity. The adoption of SFAS No. 150 did not have an impact on the Company's financial statements.

You should rely only on the information incorporated by reference or provided in this prospectus or any supplement to this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

PURE CYCLE CORPORATION

COMMON STOCK

_____

PROSPECTUS

_____

_____, 2004

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Pure Cycle is incorporated in the State of Delaware. The Delaware General Corporation Law (the "DGCL") permits corporations to indemnify a present or former director or officer of the corporation (and certain other persons serving at the request of the corporation in related capacities) for liabilities, including legal expenses, arising by reason of service in such capacity if such person shall have acted in good faith and in a manner he reasonably believed to

be in or not opposed to the best interests of the corporation, and in any criminal proceeding if such person had no reasonable cause to believe his conduct was unlawful. However, in the case of actions brought by or in the right of the corporation, no indemnification may be made with respect to any matter as to which such director or officer shall have been adjudged liable, except in certain limited circumstances.

Pure Cycle's Amended and Restated Certificate of Incorporation (the "Certificate") and Bylaws, as amended (the "Bylaws") provide that the registrant shall indemnify directors and executive officers to the fullest extent now or hereafter permitted by the DGCL.

The indemnification provided by the DGCL and the registrant's Certificate and Bylaws is not exclusive of any other rights to indemnification to which a director or officer may be entitled. The general effect of the foregoing provisions may be to reduce the number of circumstances in which an officer or director may be required to bear the economic burden of the foregoing liabilities and expenses.

Pure Cycle is in the process of obtaining a liability policy for its directors and officers as permitted by the DGCL which extends to, among other things, liability arising under the Securities Act of 1933, as amended.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth various expenses in connection with the sale and distribution of the securities being registered, other than the underwriting discounts and commissions. All amounts shown are estimates except the Commission's registration fee and the NASD filing fee.

<TABLE>
<CAPTION>

<S>	<C>
Registration fee--Securities and Exchange Commission	$4,112.08
NASD filing fee.	3,745.52
Legal fees and expenses.	125,000*
Accountants fees and expenses.	50,000*
Printing expenses.	4,500*
Blue sky filing fees and expenses.	15,000
Transfer agent and custodian fees and expenses . . .	7,500
Miscellaneous.	5,142.40
Total.	$215,000*

<FN>
*Estimated.
</TABLE>

The selling stockholders have paid none of the expenses related to this offering.

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

During the six-month period ended February 29, 2004, we issued 301,111 shares of common stock in exchange for 542,000 shares of Series A-1 Preferred Stock, pursuant to the certificate of designation of the Series A-1 Preferred Stock. The holders of the 542,000 shares of Series A-1 Preferred Stock surrendered the shares to us for retirement.

In August 2003, we entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby we issued 2,000,000 shares of Series D-1 Convertible Preferred Stock to our CEO, Mr. Thomas Clark in exchange for 200,000 (post reverse split) shares of common stock owned by Mr. Clark. We sold 200,000 (post reverse split) shares of our common stock at $2.50 per share to eleven accredited investors, four of whom had previously invested with us. Proceeds to us were $500,000. The Preferred Stock was issued under Section 4(2) of the Securities Act of 1933. The common stock was sold pursuant to Regulation D, Rule 506.

In August 2001, we entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby we issued 6,455,000 shares of Series D Preferred Stock to our CEO, Mr. Thomas Clark in exchange for 42,166 (post reverse split) shares of common stock, 3,200,000 shares of Series C Preferred Stock, 500,000 shares of Series C-1 Preferred Stock, 666,667 shares of Series C-2 Preferred

Stock, and 1,666,667 shares of Series C-3 Preferred Stock, all of which were owned by Mr. Clark. We retired 3,200,000 shares of Series C Preferred Stock, 500,000 shares of Series C-1 Preferred Stock, 666,667 shares of Series C-2 Preferred Stock, and 1,666,667 shares of Series C-3 Preferred Stock. We sold 62,500 (post reverse split) shares of our common stock at $1.60 per share to two accredited investors. Proceeds to us were $100,000. The shares were issued under Section 4(2) of the Securities Act of 1933.

ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

<TABLE>
<CAPTION>

Exhibit No.	Description of Exhibit
<S>	<C>
1.1	Underwriting Agreement.*
3.1	Amended and Restated Certificate of Incorporation.*
3.2	Bylaws (incorporated by reference from Exhibit 4.C to Registration Statement No. 2-62483).
3.3	Amendment to Bylaws effective April 22, 1988 (incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1989).
5.1	Opinion of Davis Graham & Stubbs LLP.***
10.1	Letter Agreement dated August 31, 1987 between the Company and Paradise Oil, Water & Land Development, Inc. (incorporated by reference from Current Report on Form 8-K filed with the SEC on August 5, 1988).
10.2	Right of First Refusal Agreement dated August 12, 1992 between Inco Securities Corporation and Richard F. Myers, Mark W. Harding, Thomas P. Clark, Thomas Lamm and Rowena Rogers.**
10.3	Stock Purchase Agreement dated December 10, 1991 by and among the Company and Apex Investment Fund II, L.P., the Environmental Fund II, L.P. and Productivity Fund II, L.P. (incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1992).

10.4	Service Agreement dated April 11, 1996 by and between the Company and the District (incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
10.5	Settlement Agreement and Mutual Release dated April 11, 1996 by and among the State Land Board and the District, the Company, INCO Securities Corporation, Apex Investment Fund II, L.P., Landmark Water Partners, L.P., Landmark Water Partners II, L.P., Environmental Venture Fund, L.P., Environmental Private Equity Fund II, L.P., The Productivity Fund II, L.P., Proactive Partners, L.P., Warwick Partners, L.P., Auginco, Anders C. Brag, Amy Leeds, and D.W. Pettyjohn, and OAR, Incorporated, Willard G. Owens and H.F. Riebesell, Jr. (incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
10.6	Agreement for Sale of Export Water dated April 11, 1996 by and among the Company and the District (incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
10.7	Comprehensive Amendment Agreement No. 1 dated April 1, 1996 by and among ISC, the Company, the Bondholders, Gregory M. Morey, Newell Augur, Jr., Bill Peterson, Stuart Sundlun, Alan C. Stormo, Beverlee A. Beardslee, Bradley Kent Beardslee, Robert Douglas Beardslee, Asra Corporation, International Properties, Inc., and the State Land Board (incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
10.8	Wastewater Service Agreement dated January 22, 1997 by and between the Company and the District (incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1998).
10.9	Water Service Agreement for the Sky Ranch PUD dated October 31, 2003 by and between Airpark Metropolitan District, Icon Investors I, LLC, the Company and the District.**
10.10	1992 Equity Incentive Plan (incorporated by reference from Proxy Statement filed with the SEC on March 18, 1993).
10.11	2004 Incentive Plan (incorporated by reference from Proxy Statement filed with the SEC on March 25, 2004).
10.12	Non-Statutory Stock Option Agreement dated April 19, 2001 between the Company and Mark W. Harding.**
10.13	Amendment to Water Service Agreement for the Sky Ranch PUD dated January 6, 2004.*

10.14 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 30, 2004.*

10.15 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 30, 2004 pertaining to amendment of the Option Agreement for Export Water.*

10.16 Amendment to Water Service Agreement for the Sky Ranch PUD dated March 5, 2004.*

10.17 Amended and Restated Lease Agreement between the State Land Board and the District dated April 4, 1996.*

10.18 Bargain and Sale Deed among the State Land Board, the District and the Company dated April 11, 1996.*

10.19 Mortgage Deed, Security Agreement, and Financing Statement between the State Land Board and the Company dated April 11, 1996.*

10.20 Water Service Agreement for the Hills at Sky Ranch Water dated May 14, 2004 among Icon Land II, LLC, a Colorado limited liability company, the Company, and the District (incorporated by reference from the Current Report on Form 8-K filed with the SEC on May 21, 2004).

23.1 Consent of Davis Graham & Stubbs LLP (included in Exhibit 5.1).

23.2 Consent of KPMG LLP.*

<FN>

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* Filed herewith.

** Previously filed.

*** To be filed by amendment.

</TABLE>

ITEM 28. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned small business issuer will:

(1) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer under Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the SEC declared it effective; and

(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on June 7, 2004.

PURE CYCLE CORPORATION

By: /s/ Mark W. Harding

Name: Mark W. Harding
Title: President

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Thomas P. Clark	Chief Executive Officer and Director (Principal Executive Officer)	June 7, 2004
/s/ Mark W. Harding Mark W. Harding	President and Director (Principal Financial Officer and Principal Accounting Officer)	June 7, 2004
* Harrison H. Augur	Chairman of the Board	June 7, 2004
* Richard L. Guido	Director	June 7, 2004
* Margaret S. Hansson	Director	June 7, 2004
* George M. Middlemas	Director	June 7, 2004

* Mark W. Harding, by signing his name hereto, signs this document on behalf of each of the persons indicated by an asterisk above pursuant to a power of attorney duly executed by each such persons and previously filed with the Securities and Exchange Commission as part of the Registration Statement.

Date: June 7, 2004

/s/ Mark W. Harding
Mark W. Harding, Attorney-In-Fact

<TABLE>
<CAPTION>

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
<S>	<C>
1.1	Underwriting Agreement.*
3.1	Amended and Restated Certificate of Incorporation.*
3.2	Bylaws (incorporated by reference from Exhibit 4.C to Registration Statement No. 2-62483).
3.3	Amendment to Bylaws effective April 22, 1988 (incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1989).
5.1	Opinion of Davis Graham & Stubbs LLP.***
10.1	Letter Agreement dated August 31, 1987 between the Company and Paradise Oil, Water & Land Development, Inc. (incorporated by reference from Current Report on Form 8-K filed with the SEC on August 5, 1988).
10.2	Right of First Refusal Agreement dated August 12, 1992 between Inco Securities Corporation and Richard F. Myers, Mark W. Harding, Thomas P. Clark, Thomas Lamm and Rowena Rogers.**
10.3	Stock Purchase Agreement dated December 10, 1991 by and among the Company and Apex Investment Fund II, L.P., the Environmental Fund II, L.P. and Productivity Fund II, L.P. (incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1992).
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Venture Fund, L.P., Environmental Private Equity Fund II, L.P., The Productivity Fund II, L.P., Proactive Partners, L.P., Warwick Partners, L.P., Auginco, Anders C. Brag, Amy Leeds, and D.W. Pettyjohn, and OAR, Incorporated, Willard G. Owens and H.F. Riebesell, Jr. (incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).

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*** To be filed by amendment.

</TABLE>

UNDERWRITING AGREEMENT

BETWEEN

PURE CYCLE CORPORATION

AND

FLAGSTONE SECURITIES

DATED: JUNE __, 2004

PURE CYCLE CORPORATION

3,205,367 SHARES OF COMMON STOCK

UNDERWRITING AGREEMENT

New York, New York
June __, 2004

Flagstone Securities
347 West 57th Street
34th Floor
New York, New York 10019

Gentlemen:

Pure Cycle Corporation, a corporation organized and existing under the laws of the State of Delaware (the "Company"), and those certain selling stockholders set forth on Schedule II attached hereto (the "Selling Stockholders"), propose, subject to the terms and conditions stated herein, to issue and sell to Flagstone Securities (being referred to herein variously as "you", "Flagstone" or the "Representative" and, with the other underwriters named in Schedule I hereto, the "Underwriters") an aggregate of 3,205,367 shares (the "Firm Shares") of the Company's common stock, par value 1/3 of $0.01 per share (the "Common Stock"). For the sole purpose of covering over-allotments in connection with the sale of the Firm Shares, at the option of the Underwriters, the Company proposes to issue and sell up to an additional 480,805 shares (the "Option Shares") of Common Stock. Of the Firm Shares, 700,000 are being offered by the Company and 2,505,367 are being offered by the Selling Stockholders. The Firm Shares and any Option Shares purchased by the Underwriters are referred to herein collectively as the "Shares." The Shares are more fully described in the Registration Statement referred to below.

1. Purchase and Sale of Securities.

1.1 Firm Securities.

1.1.1 Purchase of Firm Securities. On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, (i) the Company agrees to issue and sell, severally and not jointly, to the several Underwriters, an aggregate of 700,000 Firm Shares and (ii) the Selling Stockholders, severally and not jointly, agree to sell to the several Underwriters an aggregate of 2,505,367 Firm Shares, each Selling Stockholder selling the number of Firm Shares set forth opposite such Selling Stockholder's name on Schedule II hereto. On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Underwriters, severally and not jointly, agree to purchase from the Company and the Selling Stockholders, at a purchase price (net of commissions of 6.625%) of $_____ per share, the number of Firm Shares set forth opposite their respective names on Schedule I attached hereto and made a part hereof plus any additional number of Shares that the Underwriters may become obligated to purchase pursuant to the provisions of Section 7 hereof.

1.1.2 Delivery and Payment. Delivery and payment for the Firm Shares shall be made at 10:00 A.M., New York time, on or before the third business day (unless postponed in accordance with the provisions of Section 7 hereof) following the date that the Firm Shares commence trading, or at such other time as shall be agreed upon by the Representative and the Company, at the offices of counsel to the Underwriters or at such other place as shall be agreed

upon by the Representative and the Company. The hour and date of delivery and payment for the Firm Shares are called the "Closing Date." As used herein, the term "Business Day" means any day other than a day on which banks are permitted or required to be closed in New York City. Payment for the Firm Shares shall be made on the Closing Date at the Representative's election by wire transfer or by certified or bank cashier's checks in New York Clearing House funds, payable to the order of the Company and each of the Selling Stockholders (or the Custodian named in the Custody Agreement on behalf of the Selling Stockholders) upon delivery to the Representative of a certificate of the Company's transfer agent stating that the Firm Shares have been registered in book entry form in such name or names and such denominations as are requested by the Representative. The Company and the Selling Stockholders shall not be obligated to sell or deliver the Firm Shares except upon tender of payment by the Representative for all the Firm Shares. Each Selling Stockholder hereby agrees that (i) it will pay all stock transfer taxes, stamp duties and other similar taxes, if any, payable upon the sale or delivery of the Shares to be sold by such Selling Stockholder to the several Underwriters, or otherwise in connection with the performance of such Selling Stockholder's obligations hereunder and (ii) the Custodian is authorized to deduct for such payment any such amounts from the proceeds to such Selling Stockholder hereunder and to hold such amounts for the account of such Selling Stockholder with the Custodian under the Custody Agreement.

1.2 Over-Allotment Option.

1.2.1 Option Shares. For the purposes of covering any over-allotments in connection with the distribution and sale of the Firm Shares, the Company hereby grants to the Underwriters, severally and not jointly, an option to purchase up to 480,805 Option Shares from the Company ("Over-allotment Option"). The purchase price to be paid for the Option Shares will be the same price per Option Share as the price per Firm Share set forth in Section 1.1.1 hereof.

1.2.2 Exercise of Option. The Over-allotment Option granted pursuant to Section 1.2.1 hereof may be exercised by the Representative on behalf of the Underwriters as to all or any part of the Option Shares at any time (but not more than once) within thirty (30) days after the effective date ("Effective Date") of the Registration Statement (as hereinafter defined). The Underwriters will not be under any obligation to purchase any Option Shares prior to the exercise of the Over-allotment Option. The Over-allotment Option granted hereby may be exercised by the giving of oral notice to the Company from the Representative, which must be

confirmed within twenty-four (24) hours by a letter or facsimile setting forth the number of Option Shares to be purchased, the date and time for delivery of and payment for the Option Shares and stating that the Option Shares referred to therein are to be used for the purpose of covering over-allotments in connection with the distribution and sale of the Firm Shares. If such notice is given at least two full business days prior to the Closing Date, the date set forth therein for such delivery and payment will be the Closing Date. If such notice is given thereafter, the date set forth therein for such delivery and payment will not be earlier than three full business days after the date of the notice, unless the Representative and the Company agree upon an earlier or later date. If such delivery and payment for the Option Shares does not occur on the Closing Date, the date and time of the closing for such Option Shares will be as set forth in the notice (hereinafter the "Option Closing Date"). Upon exercise of the Over-allotment Option, the Company will become obligated to convey to the Underwriters, and, subject to the terms and conditions set forth herein, the Underwriters will become obligated to purchase, the number of Option Shares specified in such notice. The number of Option Shares to be sold to each Underwriter shall be the number that bears the same ratio to the aggregate number of Option Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter on Schedule I hereto (or such number increased as set forth in Section 7 hereof) bears to the total number of Firm Shares set forth on Schedule I hereto, subject, however, to such adjustments to eliminate any fractional shares as you in your sole discretion shall make.

1.2.3 Payment and Delivery. Payment for the Option Shares will be made at the Representative's election by wire transfer or by certified or bank cashier's check(s) in New York Clearing House funds, payable to the order of the Company at the offices of the Representative or at such other place as shall be agreed upon by the Representative and the Company upon delivery to the Representative of a certificate of the Company's transfer agent stating that the Option Shares have been registered in book entry form in such name or names and in such denominations as are requested by the Representative.

2. Representations and Warranties of the Company. The Company represents and warrants to the Underwriters as follows:

2.1 Filing of Registration Statement. The Company has filed with the Securities and Exchange Commission ("Commission") a registration statement and an amendment or amendments thereto, on Form SB-2 (No. 333-114568), including any related preliminary prospectus ("Preliminary Prospectus"), for the registration of the Shares under the Securities Act of 1933, as amended (the "Act"), which registration statement and amendment or amendments have been prepared by the Company in conformity with the requirements of the Act, and the rules and regulations (the "Regulations") of the Commission under the Act. Except as the context may otherwise require, such registration statement, as amended, on file with the Commission at the time the registration statement becomes effective (including the prospectus, financial statements, schedules, exhibits and all other documents filed as a part thereof or incorporated therein and all information deemed to be a part thereof as of such time pursuant to paragraph (b) of Rule 430A of the Regulations), is hereinafter called the "Registration Statement," and the form of the final prospectus dated the Effective Date or such later date as may be determined by the Representative (or, if applicable, the form of final prospectus filed with the Commission pursuant to Rule 424 of the Regulations), is hereinafter called the

"Prospectus." The Registration Statement has been declared effective by the Commission on the date hereof.

2.2 No Stop Orders, Etc. No stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Preliminary Prospectus has been issued under the Act and no proceedings for that purpose have been instituted or are pending or, to the best knowledge of the Company, are contemplated. No state regulatory authority has issued any order preventing or suspending the offering or sale of the Shares in such jurisdiction, or, to the best knowledge of the Company, threatened to institute any proceedings with respect to such order.

2.3 Disclosures in Registration Statement.

2.3.1 Securities Act Representation. At the time the Registration Statement became effective and at all times subsequent thereto up to and including the Closing Date and the Option Closing Date, if any, the Registration Statement and the Prospectus and any amendment or supplement thereto complied and will comply in all material respects with the applicable requirements of the Act and the Regulations; neither the Registration Statement nor the Prospectus, nor any amendment or supplement thereto, during such time period and on such dates, contained or will contain any untrue statement of a material fact or omitted or will omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The representation and warranty made in this Section 2.3.1 does not apply to statements made or statements omitted in reliance upon and in conformity with information herein or otherwise furnished in writing by (i) the Selling Stockholders or (ii) the Representative on behalf of the Underwriters, expressly for use in the Registration Statement or Prospectus or any amendment thereof or supplement thereto.

2.3.2 Disclosure of Contracts. The description in the Registration Statement and the Prospectus of contracts and other documents is accurate in all material respects and presents fairly the information required to be disclosed and there are no contracts or other documents required to be described in the Registration Statement or the Prospectus or to be filed with the Commission as exhibits to the Registration Statement that have not been so described or filed. Each contract or other instrument (however characterized or described) to which the Company is a party or by which its property or business is or may be bound or affected and that is (i) referred to in the Prospectus, or (ii) required to be filed as an exhibit to the Registration Statement by the Act or the Regulations, has been duly and validly executed by the Company, is in full force and effect in all material respects and is enforceable against the Company and, to the Company's knowledge, the other parties thereto in accordance with its terms, except (i) as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, (ii) as enforceability of any indemnification or contribution provision may be limited under the federal and state securities laws, and (iii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. None of such contracts or instruments has been assigned by the Company, and neither the Company nor, to the Company's knowledge, any other party, is in default thereunder and, to the Company's knowledge, no event has occurred that, with the lapse

of time or the giving of notice, or both, would constitute a default thereunder. The performance of such contracts or instruments in accordance with their terms has not resulted, and will not result, in a violation by the Company of any existing applicable law, rule or regulation or any judgment, order or decree of any governmental agency or court applicable to the Company or any of its assets or businesses, including, without limitation, those relating to environmental laws and regulations.

2.3.3 Prior Securities Transactions. No securities of the Company have been sold by the Company or by or on behalf of, or for the benefit of, any person or persons controlling, controlled by, or under common control with the Company within the three years prior to the date hereof, except as disclosed in the Registration Statement.

2.4 Changes After Dates in Registration Statement.

2.4.1 No Material Adverse Change. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise specifically stated therein, (i) there has been no material adverse change in the capital stock of the Company or the long-term indebtedness of the Company, (ii) there has been no material adverse change in the condition, financial or otherwise, or in the results of operations, business or business prospects of the Company, including, but not limited to, a material loss or interference with its business from fire, storm, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, whether or not arising in the ordinary course of business, and (iii) there have been no transactions entered into by the Company, other than those in the ordinary course of business, that are material with respect to the condition, financial or otherwise, or to the results of operations, business or business prospects of the Company.

2.4.2 Recent Securities Transactions, Etc. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may otherwise be indicated or contemplated herein or therein, the Company has not (i) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money; or (ii) declared or paid any dividend or made any other distribution on or in respect to its capital stock.

2.5 Independent Accountants. KPMG LLP ("KPMG"), whose report is filed with the Commission as part of the Registration Statement, are independent accountants as required by the Act and the Regulations and are registered and in good standing with the Public Company Accounting Oversight Board ("PCAOB"). KPMG has not, during the periods covered by the financial statements included in the Prospectus, provided to the Company any non-audit services, as such term is used in Section 10A(g) of the Securities Exchange Act of 1934, as amended ("Exchange Act").

2.6 Financial Statements. The financial statements, including the notes thereto, included in the Registration Statement and Prospectus, present fairly the financial position and the results of operations of the Company at the dates and for the periods to which they apply; and such financial statements have been prepared in conformity with generally

accepted accounting principles, consistently applied throughout the periods involved. The selected financial data and the summary financial data included in the Prospectus present fairly in all material respects the information shown therein and have been compiled on a basis consistent with that of the financial statements included in the Registration Statement. The "as adjusted" column in the sections of the Prospectus captioned "Prospectus Summary - Summary Financial Data" and "Capitalization" reflect accurately the adjustments referred to in the text of such sections. The historical financial data set forth in the Prospectus under the captions "Prospectus Summary--Summary Financial Data," "Capitalization" and "Selected Financial Data" fairly present in all material respects the information set forth therein and have been compiled on a basis consistent with that of the audited financial statements contained in the Registration Statement. The Registration Statement discloses all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons that may have a material current or future effect on the Company's financial condition, results of operations, liquidity, capital resources or significant components of revenues or expenses.

2.7 Authorized Capital; Options; Etc. The Company had at the date or

dates indicated in the Prospectus duly authorized, issued and outstanding capitalization as set forth in the Registration Statement and the Prospectus as adjusted to reflect the reverse stock split effective on April 26, 2004. Based on the assumptions and adjustments stated in the Registration Statement and the Prospectus, the Company will have on the Closing Date the adjusted stock capitalization set forth therein. Except as set forth in the Registration Statement and the Prospectus, on the Effective Date and on the Closing Date there will be no outstanding or authorized subscriptions, options, warrants or other rights to purchase or otherwise acquire, or preemptive rights with respect to the issuance or sale of, any Common Stock of the Company, including any obligations to issue any shares pursuant to anti-dilution provisions, or any security convertible into Common Stock, or any contracts or commitments to issue or sell Common Stock or any such options, warrants, rights or convertible securities.

2.8 Valid Issuance of Securities; Etc.

2.8.1 Outstanding Securities. All issued and outstanding securities of the Company have been duly authorized and validly issued and are fully paid and non-assessable; the holders thereof have no rights of rescission with respect thereto, and are not subject to personal liability by reason of being such holders; and none of such securities were issued in violation of the preemptive rights of any holders of any security of the Company or similar contractual rights granted by the Company. The outstanding options and warrants to purchase Common Stock constitute valid and binding obligations of the Company, enforceable in accordance with their terms, except (i) as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, (ii) as enforceability of any indemnification or contribution provision may be limited under the federal and state securities laws, and (iii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. The authorized Common Stock and preferred stock and outstanding options and warrants to purchase Common Stock conform to all statements relating thereto contained in the Registration Statement and the Prospectus. The

offers and sales by the Company of the outstanding Common Stock, preferred stock, options and warrants to purchase Common Stock, and securities convertible into Common Stock, were at all relevant times registered under the Act and registered or qualified under the applicable state securities or Blue Sky laws or exempt from such registration or qualification requirements.

2.8.2 Shares Sold Pursuant to this Agreement. The Shares have been duly authorized and, when issued and paid for, will be validly issued, fully paid and non-assessable; the holders thereof are not and will not be subject to personal liability by reason of being such holders; the Shares are not and will not be subject to or issued in violation of the preemptive rights of any holders of any security of the Company or similar contractual rights granted by the Company; and all corporate action required to be taken for the authorization, issuance and sale of the Shares has been duly and validly taken.

2.9 Registration and Anti-Dilution Rights of Third Parties. Except as described in the Prospectus, no holders of any securities of the Company or of any options or warrants of the Company or other rights exercisable for or convertible or exchangeable into securities of the Company (i) have any right to require the Company to register any such securities of the Company under the Act, or (ii) have rights to have the exercise or conversion prices of their securities lowered and/or the number of securities that they may purchase increased as a result of the issuance by the Company of securities for a price less than such exercise or conversion price.

2.10 Validity and Binding Effect of Agreement. This Agreement has been duly and validly authorized by the Company and duly and validly executed by the Company and constitutes the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except (i) as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, (ii) as enforceability of any indemnification or contribution provision may be limited under the federal and state securities laws, and (iii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

2.11 No Conflicts, Etc. The execution, delivery, and performance by the Company of this Agreement, the consummation by the Company of the transactions herein contemplated and the compliance by the Company with the

terms hereof do not and will not, with or without the giving of notice or the lapse of time or both, (i) result in a breach of, or conflict with any of the terms and provisions of, or constitute a default under, or result in the creation, modification, termination or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust, note, loan or credit agreement or any other agreement or instrument evidencing an obligation for borrowed money, or any other agreement or instrument to which the Company is a party or by which the Company may be bound or to which any of the property or assets of the Company is subject; (ii) result in any violation of the provisions of the certificate of incorporation or the by-laws of the Company; (iii) violate any existing applicable law, rule or regulation or any judgment, order or decree of any governmental agency or court, domestic or foreign, having jurisdiction over the Company or any of its properties or businesses; or (iv) have

a material adverse effect on any permit, license, certificate, registration, approval, consent, license or franchise of or concerning the Company.

2.12 No Defaults; Violations. Except as described in the Prospectus, no default exists in the due performance and observance of any term, covenant or condition of any license, contract, indenture, mortgage, deed of trust, note, loan or credit agreement, or any other agreement or instrument evidencing an obligation for borrowed money, or any other agreement or instrument to which the Company is a party or by which the Company may be bound or to which any of the properties or assets of the Company is subject, which default would have a material adverse effect on the condition, financial or otherwise, results of operations, or prospects of the Company (a "Material Adverse Effect"). The Company is not in violation of any term or provision of its certificate of incorporation or by-laws or in violation of any authorization, approval, franchise, license, permit, certificate, applicable federal, state and local law, rule, regulation, judgment, order or decree of any governmental agency or court, domestic or foreign, having jurisdiction over the Company or any of its properties or businesses, which violation would have a Material Adverse Effect.

2.13 Corporate Power; Licenses; Consents.

2.13.1 Conduct of Business. The Company has all requisite corporate power and authority, and has all necessary authorizations, approvals, orders, licenses, certificates and permits of and from all governmental regulatory officials and bodies to own or lease its properties and conduct its business as described in the Prospectus to the extent required at the date of the Prospectus. The disclosures in the Registration Statement concerning the effects of federal, state and local regulation on the Company's business as currently contemplated are correct and do not omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.13.2 Transactions Contemplated Herein. The Company has all corporate power and authority to enter into this Agreement and to carry out the provisions and conditions hereof, and all consents, authorizations, approvals and orders required in connection therewith have been obtained. No consent, approval, authorization or order of, and no filing with, any court, government agency or other body is required for the valid authorization, issuance, sale and delivery of the Shares and the consummation of the transactions and agreements contemplated by this Agreement and the Prospectus, except with respect to applicable federal and state securities laws and the rules of the NASD (as defined below) and NASDAQ (as defined below).

2.14 Title to Property; Insurance. Except as disclosed in the Prospectus, the Company has valid and defensible title to, or valid and enforceable leasehold estates in, all items of real and personal property (tangible and intangible) owned or leased by it, free and clear of all liens, encumbrances, claims, security interests, defects and restrictions of any nature whatsoever, other than those referred to in the Prospectus (including in the exhibits thereto and financial statements and notes thereto), purchase money security interests, and liens for taxes not yet due and payable. The Company has adequately insured its properties (other than its water rights)

against loss or damage by fire, theft, damage, destruction, acts of vandalism or terrorism or other casualty and maintains, in adequate amounts, such other insurance as is usually maintained by companies engaged in the same or similar business. The Company has no reason to believe that it will not be able to renew its existing insurance coverage from similar insurers as may be necessary to continue in its business.

2.15 Litigation; Governmental Proceedings. Except as set forth in the Prospectus, there is no action, suit, proceeding, inquiry, arbitration, investigation, litigation or governmental proceeding pending or, to the Company's knowledge, threatened against, or involving the properties or business of, the Company that might have a Material Adverse Effect or that questions the validity of the capital stock of the Company or this Agreement or of any action taken or to be taken by the Company pursuant to, or in connection with, this Agreement. There are no outstanding orders, judgments or decrees of any court, governmental agency or other tribunal, domestic or foreign, naming the Company and enjoining the Company from taking, or requiring the Company to take, any action, or to which the Company, its properties or business is bound or subject.

2.16 Good Standing. The Company has been duly organized and is validly existing as a corporation and is in good standing under the laws of the state of its incorporation. The Company is duly qualified and licensed and in good standing as a foreign corporation in each jurisdiction in which ownership or leasing of any properties or the character of its operations requires such qualification or licensing, except where the failure to qualify would not have a material adverse effect on the financial position, prospects or value or the operation of the properties or the business of the Company.

2.17 Taxes. The Company has filed all returns (as hereinafter defined) required to be filed with taxing authorities prior to the date hereof or has duly obtained extensions of time for the filing thereof. The Company has paid all taxes (as hereinafter defined) shown as due on such returns that were filed and has paid all taxes imposed on or assessed against the Company. The provisions for taxes payable, if any, shown on the financial statements filed with or as part of the Registration Statement are sufficient for all accrued and unpaid taxes, whether or not disputed, and for all periods to and including the dates of such consolidated financial statements. No issues have been raised (and are currently pending) by any taxing authority in connection with any of the returns or taxes asserted as due from the Company, and no waivers of statutes of limitation with respect to the returns or collection of taxes have been given by or requested from the Company. The term "taxes" mean all federal, state, local, foreign, and other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profits, customs, duties or other taxes, fees, assessments, or charges of any kind whatever, together with any interest and any penalties, additions to tax, or additional amounts with respect thereto. The term "returns" means all returns, declarations, reports, statements, and other documents required to be filed in respect to taxes.

2.18 Transactions Affecting Disclosure to NASD.

2.18.1 Finder's Fees. There are no claims, payments, issuances, arrangements or understandings for services in the nature of a finder's, consulting or origination fee with respect to the introduction of the Company to the Representative or any of the Underwriters or the sale of the Shares hereunder. Except for the arrangements, agreements, understandings, payments and issuances between the Company and the Representative that are described in the "Underwriting" section of the Prospectus, there are no arrangements, agreements, understandings, payments or issuances pursuant to which the Company will make a payment (i) to any member of the National Association of Securities Dealers, Inc. ("NASD") or (ii) to any person or entity that, to the knowledge of the Company, has any direct or indirect affiliation or association with any NASD member, except for payments to George Middlemas in his capacity as a director.

2.18.2 Payments Within 12 Months. Other than payments to the Representative, within the 12-month period prior to the date on which the Registration Statement was filed with the Commission ("Filing Date") or thereafter, the Company has not made or became obligated to make any direct or indirect payments (in cash, securities or otherwise) to (i) any person, as a finder's fee, investing fee or otherwise, in consideration of such person raising capital for the Company or introducing to the Company persons who provided capital to the Company, (ii) to the knowledge of the Company, any NASD member or any person or entity that has any direct or indirect affiliation or association with any NASD member, except for payments to George Middlemas in his capacity as a director.

2.18.3 Use of Proceeds. Except for debt repayment to Gregory M. Morey and entities affiliated with First Analysis Corporation, none of the net proceeds of the offering will be paid by the Company to any participating NASD member or any affiliate or associate of any participating NASD member. In

addition, the Company may utilize proceeds of the offering to offer to purchase contract rights under the Commercialization Agreement, and to the knowledge of the Company, the following parties to the Commercialization Agreement may be, or may be affiliated with, a participating NASD member: Gregory M. Morey, Warwick Partners, L.P., Apex Investment Fund II, L.P., Environmental Venture Fund L.P., currently named Environmental Venture Fund Liquidating Trust, Environmental Private Equity Fund II, L.P. and The Productivity Fund II, L.P.

2.18.4 Insiders' NASD Affiliation. Except as set forth in the Prospectus no officer or director of the Company or, to the knowledge of the Company, owner of at least 5% of the Company's outstanding Common Shares, has any direct or indirect affiliation or association with any NASD member. The Company will advise the Underwriters and the NASD if it learns that any other officer, director or owner of at least 5% of the Company's outstanding Common Shares is or becomes an affiliate or associated person of an NASD member participating in the offering.

2.19 Foreign Corrupt Practices Act. Neither the Company nor any of its officers, directors, employees, agents or any other person acting on their behalf has, directly or indirectly, given or agreed to give any money, gift or similar benefit (other than legal price

concessions to customers in the ordinary course of business) to any customer, supplier, employee or agent of a customer or supplier, or official or employee of any governmental agency or instrumentality of any government (domestic or foreign) or any political party or candidate for office (domestic or foreign) or other person who was, is, or may be in a position to help or hinder the business of the Company (or assist it in connection with any actual or proposed transaction) that (i) might subject the Company to any damage or penalty in any civil, criminal or governmental litigation or proceeding, (ii) if not given in the past, might have had a material adverse effect on the assets, business or operations of the Company as reflected in any of the financial statements contained in the Prospectus or (iii) if not continued in the future, might adversely affect the assets, business, operations or prospects of the Company. The Company's internal accounting controls and procedures are sufficient to cause the Company to comply with the Foreign Corrupt Practices Act of 1977, as amended.

2.20 NASDAQ Eligibility. As of the Effective Date, the Shares have been approved for listing on the NASDAQ SmallCap Market ("NASDAQ"). The Company is presently in compliance with Rule 4350 of the NASDAQ Marketplace Rules and will continue to comply with such Rule.

2.21 Intangibles. The Company owns or possesses the requisite licenses or rights to use all trademarks, service marks, service names, trade names, patents and patent applications, copyrights and other rights (collectively, "Intangibles") described as being licensed to or owned by it in the Registration Statement or used by the Company in its business or relating to products or services sold or currently proposed to be sold by the Company. The Company has no Intangibles that are currently registered in the United States Patent and Trademark Office . There is no claim or action by any person pertaining to, or proceeding pending or, to the Company's knowledge, threatened relating to, and the Company has not received any notice of conflict with the asserted rights of others that challenges the exclusive right of the Company with respect to, any Intangibles used in the conduct of the Company's business. To the Company's knowledge, after due inquiry, the Intangibles and the Company's current products, services and processes do not infringe on any Intangibles held by any third party, and no others have infringed upon the Intangibles of the Company.

2.22 Relations With Employees.

2.22.1 Employee Matters. The Company has generally enjoyed a satisfactory employer-employee relationship with its employees and is in compliance in all material respects with all federal, state and local laws and regulations respecting the employment of its employees and employment practices, terms and conditions of employment and wages and hours relating thereto. There are no pending investigations involving the Company by the U.S. Department of Labor or any other governmental agency responsible for the enforcement of such federal, state and local laws and regulations. There is no unfair labor practice charge or complaint against the Company pending before the National Labor Relations Board or any strike, picketing, boycott, dispute, slowdown or stoppage pending or, to the Company's knowledge, threatened against or involving the Company or any predecessor entity, and none has ever occurred. No question concerning representation exists respecting the employees of the Company and no collective bargaining agreement or modification thereof is currently being

negotiated by the Company. No grievance or arbitration proceeding is pending under any expired or existing collective bargaining agreements of the Company, if any.

2.22.2 Employee Benefit Plans. The Company neither maintains, sponsors nor contributes to, nor is it required to contribute to, any program or arrangement that is an "employee pension benefit plan," an "employee welfare benefit plan," or a, "multi-employer plan" as such terms are defined in Sections 3(2), 3(1) and 3(37), respectively, of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") ("ERISA Plans"). The Company does not maintain or contribute to, and has at no time maintained or contributed to, a defined benefit plan, as defined in Section 3(35) of ERISA.

2.23 Officers' Certificate. Any certificate signed by any duly authorized officer of the Company and delivered directly to you or to your counsel shall be deemed a representation and warranty by the Company to the Underwriters as to the matters covered thereby and as of the date given.

2.24 Lock-Up Agreements. The Company has caused to be duly executed legally binding and enforceable agreements pursuant to which all of the officers and directors of the Company, Apex Investment Fund II, L.P., Environmental Venture Fund Liquidating Trust, The Productivity Fund II, L.P., and Environmental Private Equity Fund II, L.P. (including their family members and affiliates) (collectively, the "Insiders"), agree not to sell any Common Stock or warrants or options to purchase, or other securities convertible into Common Stock owned by them (either pursuant to Rule 144 of the Regulations or otherwise) for a period of 180 days following the Effective Date ("Lock-up Period").

2.25 Subsidiaries. The Company does not own an interest in any corporation, partnership, limited liability company, joint venture, trust or other business entity. The Company has no subsidiaries.

2.26 Environmental Matters. The Company is in compliance with all environmental, safety or similar laws or regulations applicable to it or its business or property relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants and the disposal of hazardous or toxic substances, wastes, pollutants and contaminants.

2.27 Product Liability Insurance. The Company does not maintain product liability insurance.

2.28 Company Not an Investment Company. The Company has been advised of the rules and requirements under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Company is not, and after receipt of payment for the Shares will not be, an "investment company" within the meaning of the Investment Company Act, and will conduct its business in a manner so that it will not become subject to the Investment Company Act.

2.29 Related Party Transactions. There are no business relationships or related party transactions involving the Company or any other person required to be described in the Prospectus that have not been described as required.

3. Representations and Warranties of the Selling Stockholders. Each of the Selling Stockholders, with respect to itself, represents, warrants and covenants to, and agrees with, each Underwriter and the Company as follows:

3.1 Validity and Binding Effect of Underwriting Agreement. This Agreement has been duly authorized (to the extent due authorization is a relevant concept to such Selling Stockholder), executed and delivered by or on behalf of such Selling Stockholder and is a valid and binding agreement of such Selling Stockholder, enforceable in accordance with its terms, except (i) as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, (ii) as enforceability of any indemnification or contribution provision may be limited under the federal and state securities laws, and (iii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

3.2 Custody Agreement and Power of Attorney. Each of the (1) Custody Agreement signed by such Selling Stockholder and ComputerShare Trust Company as custodian (the "Custodian"), relating to the deposit of the Shares to be sold by such Selling Stockholder (the "Custody Agreement") and (2) Power of Attorney appointing certain individuals named therein as such Selling Stockholder's attorneys-in-fact (each, an "Attorney-in-Fact") to the extent set forth therein relating to the transactions contemplated hereby and by the Prospectus (the "Power of Attorney"), of such Selling Stockholder has been duly authorized (to the extent due authorization is a relevant concept to such Selling Stockholder), executed and delivered by such Selling Stockholder and is a valid and binding agreement of such Selling Stockholder, enforceable in accordance with its terms, except (i) as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, (ii) as enforceability of any indemnification or contribution provision may be limited under the federal and state securities laws, and (iii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. Each Selling Stockholder agrees that the Shares to be sold by such Selling Stockholder on deposit with the Custodian are subject to the interests of the Custodian, that the arrangements made for such custody are irrevocable to the extent set forth in the Custody Agreement, and that the obligations of such Selling Stockholder hereunder and thereunder shall not be terminated, except as provided in this Agreement or in the Custody Agreement, by any act of the Selling Stockholder, by operation of law, by death or incapacity of such Selling Stockholder or by the occurrence of any other event. If such Selling Stockholder should die or become incapacitated, or if any other event should occur, before the delivery of the Shares to be sold by such Selling Stockholder hereunder, the documents evidencing the Shares to be sold by such Selling Stockholder then on deposit with the Custodian shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of

whether or not the Custodian shall have received notice thereof and to the extent permitted by law.

3.3 Shares Sold Pursuant to this Agreement. Such Selling Stockholder is the lawful owner of the Shares to be sold by such Selling Stockholder hereunder and has, and on the Closing Date will have, good and valid title to all of the Shares that may be sold by such Selling Stockholder pursuant to this Agreement on such date and the legal right and power, and all authorizations and approvals required by law and, where applicable, under its charter or by-laws, partnership agreement, trust agreement or other organizational documents, to enter into this Agreement and its Custody Agreement and Power of Attorney, to sell, transfer and deliver all of the Shares that may be sold by such Selling Stockholder pursuant to this Agreement and to comply with its other obligations hereunder and thereunder, and upon sale and delivery of, and payment for, such Shares, as provided herein, such Selling Stockholder will convey good and marketable title to such Shares, free and clear of all liens, encumbrances, equities and claims whatsoever, assuming that you are bona fide purchasers.

3.4 Transactions Contemplated Herein. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by such Selling Stockholder of the transactions contemplated herein, except such as may be required under applicable federal and state securities laws and the rules of the NASD or except as have been obtained or may be required, and where applicable, will not conflict with or constitute a breach of any of the terms or provisions of, or a default under, the charter or by-laws of such Selling Stockholder, if applicable, or any agreement, indenture or other instrument to which such Selling Stockholder is a party or by which such Selling Stockholder or property of such Selling Stockholder is bound, or violate or conflict with any law, administrative regulation or ruling or court decree applicable to such Selling Stockholder or property of such Selling Stockholder.

3.5 Registration Rights. Such Selling Stockholder does not have any registration or other similar rights to have any equity or debt securities registered for sale by the Company under the Registration Statement or included in the offering contemplated by this Agreement, except for such rights as are described in the Prospectus.

3.6 Preemptive and Other Rights. Such Selling Stockholder does not have, or has waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company or any of the other Selling Stockholders to the Underwriters pursuant to this Agreement; and such Selling Stockholder does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, right,

warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

3.7 Selling Stockholder Information. All information furnished by or on behalf of such Selling Stockholder in its capacity as a Selling Stockholder in writing expressly for use in the Registration Statement and Prospectus is, and on the Closing Date will be, true, correct, and complete in all material respects, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact, in either case relating to such Selling Stockholder, necessary to make such information not misleading.

3.8 Stabilization. Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares, and other than as permitted by the Act, such Selling Stockholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale or resale of the Shares.

3.9 NASD. Neither the Selling Stockholder nor any of the Selling Stockholder's affiliates directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, or had any other association with (within the meaning of Article I of the Bylaws of the NASD), any member firm of the NASD, other than as disclosed to the Representative in such Selling Stockholder's NASD questionnaire.

3.10 Notification of Changes. At any time when a prospectus relating to the Shares is required to be delivered under the Act, if there is any change in the information referred to in this Section 3, such Selling Stockholder will immediately notify you of such change.

3.11 Organization. Such Selling Stockholder, where applicable, has been duly organized and is validly existing as a corporation or organization under its jurisdiction of incorporation or organization, as the case may be.

3.12 Certificates. Any certificate, including, without limitation, any custody agreement, power of attorney, questionnaire and certificate of a Selling Stockholder (collectively, the "Selling Stockholder Documents) signed by or on behalf of such Selling Stockholder and delivered to the Representative or to counsel for the Underwriters shall be deemed to be a representation and warranty by such Selling Stockholder to each Underwriter as to the matters covered thereby.

4. Covenants of the Company. The Company covenants and agrees as follows:

4.1 Amendments to Registration Statement. The Company will deliver to the Representative, prior to filing, any amendment or supplement to the Registration Statement or Prospectus proposed to be filed after the Effective Date and not file any such amendment or supplement to which the Representative shall reasonably object.

4.2 Federal Securities Laws.

4.2.1 Compliance. During the time when a Prospectus is required to be delivered under the Act, the Company will use all reasonable efforts to comply with all requirements imposed upon it by the Act, the Regulations and the Exchange Act and by the regulations under the Exchange Act, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Shares in accordance with the provisions hereof, and the Prospectus. If at any time when a Prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which, in the opinion of counsel for the Company or counsel for the Underwriters, the Prospectus, as then amended or supplemented, includes an untrue statement of a material fact or omits to state any material fact

required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act, the Company will notify the Representative and counsel for the Underwriters promptly

and prepare and file with the Commission, subject to Section 4.1 hereof, an appropriate amendment or supplement in accordance with Section 10 of the Act.

4.2.2 Filing of Final Prospectus. The Company will file the Prospectus (in form and substance reasonably satisfactory to the Representative) with the Commission pursuant to the requirements of Rule 424 of the Regulations.

4.2.3 Exchange Act Registration. For a period of three years from the Effective Date, the Company will use its best efforts to maintain the registration of the Common Stock under the provisions of Section 12 of the Exchange Act, unless the transaction pursuant to which the Common Stock is deregistered is approved by the Company's stockholders.

4.3 Blue Sky Filings. The Company will endeavor in good faith, at or prior to the time the Registration Statement becomes effective, to qualify the Shares for offering and sale under the securities laws of such jurisdictions as the Representative may reasonably determine are consistent with the proper distribution of the Shares, provided that no such qualification shall be required in any jurisdiction where, as a result thereof, the Company would be subject to service of general process or to taxation as a foreign corporation doing business in such jurisdiction. In each jurisdiction where such qualification shall be effected, the Company will, unless the Representative agrees that such action is not at the time necessary or advisable, use all reasonable efforts to file and make such statements or reports at such times as are or may be required by the laws of such jurisdiction.

4.4 Delivery to the Underwriters of Prospectuses. The Company will deliver to each of the several Underwriters, without charge, from time to time during the period when the Prospectus is required to be delivered under the Act or the Exchange Act, such number of copies of each Preliminary Prospectus and the Prospectus as such Underwriter may reasonably request and, as soon as the Registration Statement or any amendment or supplement thereto becomes effective, deliver to the Representative two original executed Registration Statements, including exhibits, and all post-effective amendments thereto and copies of all exhibits filed therewith or incorporated therein by reference and all original executed consents of certified experts.

4.5 Events Requiring Notice to the Representative. The Company will notify the Representative immediately and confirm the notice in writing (i) of the effectiveness of the Registration Statement and any amendment thereto, (ii) of the issuance by the Commission of any stop order or of the initiation, or the threatening, of any proceeding for that purpose, (iii) if it becomes aware of the issuance by any state securities commission of any proceedings for the suspension of the qualification of the Shares for offering or sale in any jurisdiction or of the initiation, or the threatening, of any proceeding for that purpose, (iv) of the mailing and delivery to the Commission for filing of any amendment or supplement to the Registration Statement or Prospectus, (v) of the receipt of any comments or request for any additional information from the

Commission, and (vi) of the happening of any event during the period described in Section 4.4 hereof that, in the judgment of the Company, makes any statement of a material fact made in the Registration Statement or the Prospectus untrue or that requires the making of any changes in the Registration Statement or the Prospectus in order to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Commission or any state securities commission shall enter a stop order or suspend such qualification at any time, the Company will make every reasonable effort to obtain promptly the lifting of such order.

4.5.1 NASDAQ Maintenance. For a period of three years from the date hereof, the Company will use its commercially reasonable best efforts to maintain the listing by NASDAQ of the Common Stock.

4.6 Payment of Expenses.

4.6.1 General Expenses. The Company hereby agrees to pay on the Closing Date and, to the extent not paid on the Closing Date, on the Option Closing Date, all expenses incident to the performance of the obligations of the Company and the Selling Stockholders under this Agreement, including but not limited to (i) the preparation, printing, filing, delivery and mailing (including the payment of postage with respect to such mailing) of the Registration Statement and any post-effective amendments thereto, the Prospectus and the Preliminary Prospectuses and the printing and mailing of this Agreement and related documents, including the cost of all copies thereof and any amendments thereof or supplements thereto supplied to the Underwriters in

quantities as may be required by the Underwriters, (ii) the printing, engraving, issuance and delivery of the Firm Shares and the Option Shares, including any transfer or other taxes payable thereon, (iii) the qualification of the Shares under state or foreign securities or Blue Sky laws, including the filing fees under such Blue Sky laws, the costs of printing and mailing the "Preliminary Blue Sky Memorandum"and all amendments and supplements thereto, the fees and disbursements of the Company's counsel, and fees and disbursements of local counsel, if any, retained for such purpose, (iv) filing fees incurred in registering the offering with the NASD, (v) costs of placing "tombstone" advertisements in various publications to be selected by the Representative, (vi) fees and disbursements of the transfer agent, (vii) the Company's expenses associated with "road show" meetings with potential investors arranged by the Representative, (viii) the preparation, velo-binding and delivery of closing documents, in quantity, form and style satisfactory to the Representative and transaction lucite cubes or similar commemorative items in a style and quantity as reasonably requested by the Representative, (ix) listing of the Shares on NASDAQ and (x) all other costs and expenses incident to the performance of its obligations hereunder that are not otherwise specifically provided for in this Section 4.6.1. Notwithstanding the foregoing, the aggregate amount of costs relating to subsection (v) above and transfer taxes and fees shall not exceed $10,000. The Representative may deduct from the net proceeds of the offering payable to the Company on the Closing Date, or the Option Closing Date, if any, the expenses set forth herein to be paid by the Company to the Representative and/or, following notice to the Company, to third parties.

4.6.2 Non-Accountable Expenses. In addition to the expenses payable pursuant to Section 4.6.1, on or prior to the date hereof the Company has paid to the

Representative a non-accountable expense allowance equal to $30,000. If the offering contemplated by this Agreement is not consummated for any reason whatsoever then the following provisions shall apply: The Company's liability for payment to the Representative of the non-accountable expense allowance shall be equal to the sum of the Representative's actual out-of-pocket expenses (including, but not limited to, counsel fees, and expenses of the Company associated with "road show" meetings with potential investors advanced by the Representative), up to an aggregate maximum of $30,000. The Representative shall retain such part of the non-accountable expense allowance previously paid as shall equal such actual out-of-pocket expenses. If the amount previously paid exceeds the amount of actual out-of-pocket expenses, the Representative shall promptly remit to the Company any such excess.

4.7 Application of Net Proceeds. The Company will apply the net proceeds from the offering received by it in a manner consistent with the application described under the caption "Use of Proceeds" in the Prospectus. The Company hereby agrees that, except as so described, without the express prior written consent of the Representative the Company will not apply any net proceeds from the offering to pay (i) any debt for borrowed funds; or (ii) any obligations (including indebtedness, both principal and any interest thereon, for borrowed funds and unpaid salaries, fees or other compensation) owed to any Insider (excluding salaries or fees payable on a current basis to officers and directors in the ordinary course of the Company's business). Notwithstanding the foregoing, the Company shall have no obligation under this Agreement restricting the use of proceeds of the Offering after 180 days from the Effective Date.

4.8 Delivery of Earnings Statements to Security Holders. The Company will make generally available to its security holders as soon as practicable, but not later than the first day of the fifteenth full calendar month following the Effective Date, an earnings statement (which need not be certified by independent certified public accountants unless required by the Act or the Regulations, but which shall satisfy the provisions of Rule 158(a) under Section 11(a) of the Act) covering a period of at least twelve (12) consecutive months beginning after the Effective Date.

4.9 Stabilization. Neither the Company, nor, to its knowledge, any of its employees, directors or stockholders has taken or will take, directly or indirectly, any action designed to or that has constituted or that might reasonably be expected to cause or result in, under the Exchange Act, or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

4.10 Sale of Securities. The Company agrees not to permit or cause a private or public sale or private or public offering of any of its securities (in any manner, including pursuant to Rule 144 under the Act) owned nominally or beneficially by the Insiders for the time period set forth in Section 2.24 following the Effective Date.

4.11 Disclosure Controls and Procedures. The Company has established and observes, and will continue to observe, those "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Exchange Act, that are required by applicable law.

4.12 Internal Control Over Financial Reporting. The Company has established and observes, and will continue to observe, "internal control over financial reporting," as defined in Rule 13a-15(f) under the Exchange Act, as required by applicable law.

4.13 Publicity. The Company agrees that, until the date that is 180 days after the Effective Date, the Company shall not issue any press release or make any other public announcement, or otherwise communicate with the media, unless such press release, announcement or other communication is first reviewed and cleared by Davis Graham & Stubbs LLP ("DG&S"), counsel to the Company, and one day's prior written notice of such press release, announcement or communication is given to Flagstone.

4.14 Right of First Refusal. The Company agrees that until the first anniversary of the Closing Date, in the event that at any time or from time to time during such period the Company elects to sell equity securities through a public or private offering that utilizes a placement agent or underwriter, the Company shall in each such case deliver prompt written notice of such determination to Flagstone and offer to Flagstone the opportunity to act as underwriter or placement agent with respect to such offering. Within fifteen (15) days after receipt of such notice, Flagstone shall provide written notice to the Company setting forth Flagstone's intention to act as underwriter or placement agent for such offering (the "Acceptance Notice"). The Acceptance Notice shall specify the fees Flagstone intends to charge for its services in such capacity, which shall be comparable to fees that would be charged by other registered broker-dealers for similar offerings. In the event that Flagstone does not deliver an Acceptance Notice to the Company within such fifteen (15) day period, or if Flagstone delivers written notice that it declines to act as underwriter or placement agent for such offering, then unless the parties otherwise agree, Flagstone shall have no further right to act as underwriter or placement agent with respect to such offering.

5. Conditions of the Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Shares, as provided herein, shall be subject to the continuing accuracy of the representations and warranties of the Company and the Selling Stockholders as of the date hereof and as of each of the Closing Date and the Option Closing Date, if any, to the accuracy of the statements of officers of the Company made pursuant to the provisions hereof and to the performance by the Company of its obligations hereunder and to the following conditions:

5.1 Regulatory Matters.

5.1.1 Effectiveness of Registration Statement. The Registration Statement has been declared effective on or prior to the date of this Agreement and, at each of the Closing Date and the Option Closing Date, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for such purpose shall have been instituted or shall be pending or, to the Company's knowledge, contemplated by the Commission and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of Davis & Gilbert LLP ("D&G"), counsel to the Underwriters.

5.1.2 NASD Clearance. By the Effective Date, the Representative shall have received clearance from the NASD as to the amount of compensation allowable or payable to the Underwriters as described in the Registration Statement.

5.1.3 No Blue Sky Stop Orders. No order suspending the sale of the Shares in any jurisdiction designated by the Representative pursuant to Section 4.3 hereof shall have been issued on or before either the Closing Date or the Option Closing Date, and no proceedings for that purpose shall have been instituted or, to the Company's knowledge, shall be contemplated.

5.2 Company Counsel Matters.

5.2.1 Opinion of Company Counsel, Water Counsel and Delaware Counsel. On the Closing Date, the Representative shall have received the favorable opinion from each of DG&S, Petrock & Fendel, P.C. ("Water Counsel"), and Richards, Layton & Finger, P.A. ("Delaware Counsel"), each dated the Closing Date, addressed to the Underwriters and in the forms attached hereto as Exhibits A, B and C, respectively.

5.2.2 Option Closing Date Opinion of Company Counsel, Water Counsel and Delaware Counsel. On the Option Closing Date, if any, the Representative shall have received the opinions of DG&S, Water Counsel and Delaware Counsel, each dated the Option Closing Date, addressed to the Underwriters and in form and substance satisfactory to D&G, confirming as of the Option Closing Date the statements made by DG&S, Water Counsel and Delaware Counsel in their respective opinions delivered on the Closing Date.

5.2.3 Reliance. In rendering such opinions, such counsels may rely (i) as to matters involving the application of laws other than the laws of the United States and jurisdictions in which they are admitted, to the extent such counsel deem proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to D&G) of other counsel reasonably acceptable to D&G, familiar with the applicable laws, and (ii) as to matters of fact, to the extent they deem proper, on certificates of the officers of the Company and certificates or other written statements of officers of departments of various jurisdiction having custody of documents respecting the corporate existence or good standing of the Company, provided that copies of any such statements or certificates shall be delivered to D&G. Any opinion relied upon by the Company Counsel, Water Counsel or Delaware Counsel, and the opinions of Company Counsel, Water Counsel and Delaware Counsel, shall include statements to the effect that they may be relied upon by counsel for the Underwriters in its opinion delivered to the Underwriters.

5.3 Cold Comfort Letter. At the time this Agreement is executed, and at each of the Closing Date and the Option Closing Date, if any, you shall have received a letter, addressed to the Underwriters and in form and substance satisfactory in all respects (including the non-material nature of the changes or decreases, if any, referred to in clause (iii) below) to you and to D&G, from KPMG dated, respectively, as of the date of this Agreement and as of the Closing Date and the Option Closing Date, if any:

(i) confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable Regulations;

(ii) stating that in their opinion the financial statements and the financial statement schedules of the Company included in the Registration Statement and Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act and the published Regulations thereunder;

(iii) stating that, based on the performance of procedures specified by the American Institute of Certified Public Accountants or, when promulgated and effective, the procedures specified by the PCAOB, for a review of the latest available unaudited interim financial statements of the Company (as described in Statement on Auditing Standards ("SAS") No. 71 -- "Interim Financial Information"), with an indication of the date of the latest available unaudited interim financial statements, a reading of the latest available minutes of the stockholders and board of directors and the various committees of the board of directors, consultations with officers and other employees of the Company responsible for financial and accounting matters and other specified procedures and inquiries, nothing has come to their attention that would lead them to believe that (a) the unaudited financial statements of the Company included or incorporated by reference in the Registration Statement do not comply as to form in all material respects with the applicable accounting requirements of the Act and the Regulations or any material modification should be made to the unaudited interim financial statements included in the Registration Statement for them to be in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements of the Company included in the Registration Statement, (b) at a date not later than five days prior to the Effective Date, Closing Date or Option Closing Date, as the case may be, there was any change in the capital stock or long-term debt of the Company, or any decrease in the net current assets (working capital) or shareholders' equity of the Company as compared with amounts shown in the March 31, 2004 balance sheet included in the Registration Statement, other than as set forth in or contemplated by the Registration Statement, or, if there was any decrease, setting forth the amount of such decrease, and (c) during the period from March 31, 2004 to a specified

date not later than five days prior to the Effective Date, Closing Date or Option Closing Date, as the case may be, there was any decrease in revenues, net earnings or net earnings per share, in each case as compared with the corresponding period in the preceding year and as compared with the corresponding period in the preceding quarter, other than as set forth in or contemplated by the Registration Statement, or, if there was any such decrease, setting forth the amount of such decrease;

(iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, statements and other financial information pertaining to the Company set forth in the Prospectus in each case to the extent that such amounts, numbers, percentages, statements and information may be derived from the general accounting records, and work sheets, of the Company with the results obtained from the application of specified readings, inquiries and other appropriate procedures (which procedures do not constitute an examination in accordance with generally accepted auditing standards) set forth in the letter and found them to be in agreement; and

(v) statements as to such other matters incident to the transaction contemplated hereby as you may reasonably request.

5.4 Officers' Certificates.

5.4.1 Officers' Certificate. At each of the Closing Date and the Option Closing Date, if any, the Representative shall have received a certificate, that is true and correct in fact, of the Company signed by the Chief Executive Officer and the Chief Financial Officer of the Company, dated the Closing Date or the Option Closing Date, as the case may be, respectively, to the effect that the Company has in all material respects performed all covenants and complied with all conditions required by this Agreement to be performed or complied with by the Company prior to and as of the Closing Date or the Option Closing Date, as the case may be, and that, as of the Closing Date or the Option Closing Date, as the case may be, the representations and warranties of the Company set forth in Section 2 hereof are true and correct. In addition, the Representative will have received such other and further certificates of officers of the Company as the Representative may reasonably request.

5.4.2 Secretary's Certificate. At each of the Closing Date and the Option Closing Date, if any, the Representative shall have received a certificate of the Company signed by the Secretary of the Company, dated the Closing Date or the Option Date, as the case may be, respectively, certifying (i) that the By-Laws and Certificate of Incorporation, as amended, of the Company are true and complete, have not been modified and are in full force and effect, (ii) that the resolutions relating to the public offering contemplated by this Agreement are in full force and effect and have not been modified, (iii) all correspondence between the Company or its counsel and the Commission, (iv) all correspondence between the Company or its counsel and NASDAQ concerning listing of the Shares on NASDAQ and (vi) as to the incumbency of the officers of the Company. The documents referred to in such certificate shall be attached to such certificate.

5.5 Selling Stockholders' Certificates. All the representations and warranties of the Selling Stockholders contained in this Agreement shall be true and correct on the Closing Date with the same force and effect as if made on and as of the Closing Date, and you shall have received a certificate to such effect, dated the Closing Date, from the Attorney-in-Fact for each of the Selling Stockholders.

5.6 Selling Stockholders' Counsel Matters.

5.6.1 Opinions of Selling Stockholders' Counsel. At the Closing Date you shall have received the opinions of counsel for the Selling Stockholders that collectively hold more than 1,934,754 of the total number of shares being offered by the Selling Stockholders, dated the Closing Date addressed to the Underwriters and in form and substance satisfactory to D&G, substantially to the effect that: [Open]

(i) Such Selling Stockholder has full legal right, power and authority, and any approval required by law (other than any approval imposed by the applicable

state securities and Blue Sky laws), to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder in the manner provided in this Agreement.

(ii) Such Selling Stockholder has good and clear title to the certificates for the Shares to be sold by such Selling Stockholder, and upon delivery thereof pursuant hereto and payment therefor, good and clear title will pass to the Underwriters, severally, free of all restrictions on transfer, liens, encumbrances, security interests and claims whatsoever.

(iii) This Agreement has been duly and validly authorized, executed and delivered by such Selling Stockholder and is a valid and binding agreement of each Selling Stockholder.

(iv) The power of attorney signed by such Selling Stockholder appointing Mark W. Harding and Thomas P. Clark as such Selling Stockholder's attorney-in-fact, to the extent set forth therein with regard to the transactions contemplated hereby and by the Registration Statement, has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder and is the valid and binding instrument of such Selling Stockholder enforceable in accordance with its terms, and pursuant to such power of attorney, such Selling Stockholder has authorized such attorney-in-fact to execute and deliver on such Selling Stockholder's behalf this Agreement and any other document necessary or desirable in connection with the transactions contemplated hereby and to deliver the Shares to be sold by such Selling Stockholder pursuant to this Agreement.

(v) Where applicable, such Selling Stockholder has been duly organized and is validly existing as a corporation or organization under its jurisdiction of incorporation or organization, as the case may be.

(vi) The execution, delivery and performance of this Agreement by such Selling Stockholder, compliance by such Selling Stockholders with all the provisions hereof and the consummation of the transactions contemplated hereby will not require any consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body (except as such may be required under the Act, state securities laws or Blue Sky laws or except as such may have been obtained) and will not conflict with or constitute a breach of any of the terms or provisions of, or a default under, the charter or by-laws of such Selling Stockholder, if applicable, or any material agreement, indenture or other instrument to which such Selling Stockholder is a party or by which such Selling Stockholder or property of such Selling Stockholder is bound, or violate or conflict with any laws, administrative regulation or ruling or court decree applicable to such Selling Stockholder or property of such Selling Stockholder.

5.6.2 Reliance. In rendering such opinions, such counsel may rely (i) as to matters involving the application of laws other than the laws of the United States and jurisdictions in which they are admitted, to the extent such counsel deem proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to D&G) of other counsel reasonably acceptable to D&G, familiar with

the applicable laws, and (ii) as to matters of fact, to the extent they deem proper, on certificates or other written statements of officers of departments of various jurisdiction having custody of documents respecting the corporate existence or good standing of one or more of the Stockholders, where applicable, provided that copies of any such statements or certificates shall be delivered to D&G. Any opinion relied upon by any counsel for the Selling Stockholders, and the opinions of counsel for the Selling Stockholders, shall include statements to the effect that they may be relied upon by counsel for the Underwriters in its opinion delivered to the Underwriters.

5.7 Other Information. Prior to the Closing Date the Company and the Selling Stockholders shall have furnished to you such further information, certificates and documents as you may reasonably request. With respect to the Option Shares, prior to the Option Closing Date, the Company shall have furnished to you such further information, certificates and documents as you may reasonably request.

5.8 Opinion of Counsel for the Underwriters. All proceedings taken in connection with the authorization, issuance or sale of the Shares as herein contemplated shall be reasonably satisfactory in form and substance to you and to D&G, counsel to the Underwriters, and you shall have received from such counsel a favorable opinion, dated the Closing Date and the Option Closing Date, if any, with respect to such of these proceedings as you may reasonably require. On or prior to the Effective Date, the Closing Date and the Option Closing Date, as the case may be, counsel for the Underwriters shall have been furnished such documents, certificates and opinions as they may reasonably require for the purpose of enabling them to review or pass upon the matters referred to in this Section 5.9, or in order to evidence the accuracy, completeness or satisfaction

of any of the representations, warranties or conditions herein contained.

If any of the conditions specified in this Section 5 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to you or to D&G pursuant to this Section 5 shall not be in all material respects reasonably satisfactory in form and substance to you and to D&G, all obligations of the Underwriters hereunder may be cancelled by you at, or at any time prior to, the Closing Date and the obligations of the Underwriters to purchase the Option Shares may be canceled by you at, or at any time prior to, the Option Closing Date. Notice of such cancellation shall be given to the Company in writing, or by telephone, facsimile, confirmed in writing.

6. Indemnification.

6.1 Indemnification of the Underwriter.

6.1.1 General.

(a) Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless each of the Underwriters, their respective directors, officers, agents and employees and each person, if any, who controls any such Underwriter ("controlling person") within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act,

against any and all loss, liability, claim, damage and expense whatsoever (including but not limited to any and all legal or other expenses reasonably incurred in investigating, preparing or defending against any litigation, or any claims whatsoever, commenced or threatened, whether arising out of any action between any of the Underwriters and the Company or between any of the Underwriters and any third party or otherwise) to which they or any of them may become subject under the Act, the Exchange Act or any other statute or at common law or otherwise or under the laws of foreign countries (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), arising out of or based upon any untrue statement or alleged untrue statement of a material fact (i) contained in any Preliminary Prospectus, the Registration Statement or the Prospectus (as from time to time each may be amended and supplemented, and including any information deemed to be a part thereto pursuant to Rule 430A or Rule 434 of the Regulations); (ii) contained in any post-effective amendment or amendments to the Registration Statement; (iii) contained in any application or other document or written communication (in this Section 6 collectively called "application") executed by the Company or based upon written information furnished by the Company in any jurisdiction in order to qualify the Shares under the securities laws thereof or filed with the Commission, any state securities commission or agency, the NASD (including NASDAQ and NASD Regulation, Inc.) or any securities exchange; or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, unless such statement or omission was made in reliance upon, and in strict conformity with, written information furnished to the Company with respect to an Underwriter by or on behalf of such Underwriter expressly for use in any Preliminary Prospectus, the Registration Statement or Prospectus, or any amendment or supplement thereof, or in any application, as the case may be. The Company agrees to notify the Representative promptly of the commencement of any litigation or proceedings against the Company or any of its officers, directors or controlling persons in connection with the issue and sale of the Shares or in connection with the Registration Statement or Prospectus.

(b) Subject to the conditions set forth below, each of the Selling Stockholders severally, but not jointly, agree to indemnify and hold harmless each of the Underwriters, their respective directors, officers, agents and employees and each person, if any, who controls any such Underwriter ("controlling person") within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all loss, liability, claim, damage and expense whatsoever (including but not limited to any and all legal or other expenses reasonably incurred in investigating, preparing or defending against any litigation, or any claims whatsoever, commenced or threatened, whether arising out of any action between any of the Underwriters and the Company or between any of the Underwriters and any third party or otherwise) to which they or any of them may become subject under the Act, the Exchange Act or any other statute or at common law or otherwise or under the laws of foreign countries (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), arising out of or based upon any untrue statement or alleged untrue statement of a material fact provided by such Selling Stockholder (i) contained in any Preliminary Prospectus, the Registration Statement or the Prospectus (as from time to time each may be amended and supplemented, and including any information deemed to be a part thereto pursuant to Rule 430A or Rule 434 of the Regulations); (ii) contained in

any post-effective amendment or amendments to the Registration Statement; (iii) contained in any application or other document or written

communication (in this Section 6 collectively called "application") executed by such Selling Stockholder or based upon written information furnished by such Selling Stockholder in any jurisdiction in order to qualify the Shares under the securities laws thereof or filed with the Commission, any state securities commission or agency, the NASD (including NASDAQ and NASD Regulation, Inc.) or any securities exchange; or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, unless such statement or omission was made in reliance upon, and in strict conformity with, written information furnished to such Selling Stockholder with respect to an Underwriter by or on behalf of such Underwriter expressly for use in any Preliminary Prospectus, the Registration Statement or Prospectus, or any amendment or supplement thereof, or in any application, as the case may be. Notwithstanding the foregoing, each Selling Stockholder shall be liable hereunder in any case only to the extent of the total net proceeds received by such Selling Stockholder from the sale of the Shares sold by such Selling Stockholder.

6.1.2 Procedure. If any action is brought against an

Underwriter or controlling person in respect of which indemnity may be sought against the Company pursuant to Section 6.1.1, such Underwriter shall promptly notify the Company in writing of the institution of such action and the Company shall assume the defense of such action, including the employment and fees of counsel, which counsel must be reasonably satisfactory to the Underwriter, and payment of actual expenses. Such Underwriter or controlling person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless (i) the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action, or (ii) the Company shall not have employed counsel to have charge of the defense of such action, or (iii) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them that are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events the fees and expenses of not more than one additional firm of attorneys selected by the Underwriter and/or controlling person shall be borne by the Company. Notwithstanding anything to the contrary contained herein, if the Underwriter or controlling person shall assume the defense of such action as provided above, the Company shall have the right to approve the terms of any settlement of such action which approval shall not be unreasonably withheld.

6.2 Indemnification of the Company and the Selling Stockholders.

Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement, the Selling Stockholders and each other person, if any, who controls the Company or any Selling Stockholder within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all loss, liability, claim, damage and expense described in the foregoing indemnities from the Company and the Selling Stockholders to the several Underwriters, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions made in any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment or supplement thereto or in any application in reliance upon, and in strict conformity with, written information furnished to the Company with

respect to such Underwriter by or on behalf of the Underwriter expressly for use in such Preliminary Prospectus, the Registration Statement or Prospectus or any amendment or supplement thereto or in any such application. The Company and the Selling Stockholders acknowledge that the statements with respect to the public offering of the Firm Securities and the Option Securities set forth under the heading "Plan of Distribution" in the Prospectus have been furnished by the Underwriters expressly for use therein and constitute the only information furnished in writing by or on behalf of the Underwriters for inclusion in the Registration Statement or Prospectus or any amendment thereof or supplement thereto. In case any action shall be brought against the Company or any Selling Stockholder based on any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment or supplement thereto or any application, and in respect of which indemnity may be sought against any Underwriter, such Underwriter shall have the rights and duties given to the Company and the Selling Stockholders, and the Company and the Selling Stockholders shall have the rights and duties given to the several Underwriters, by the provisions of Section 6.1.2.

6.3 Contribution. In order to provide for contribution in
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circumstances in which the indemnification provided for in this Section 6, if otherwise available in accordance with its terms, is for any reason (a) held to be unavailable from any indemnifying party or (b) is insufficient to hold harmless a party indemnified thereunder, the Company, the Selling Stockholders and the Underwriters shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company or the Selling Stockholders any contribution received by the Company or the Selling Stockholders from persons, other than insurers and the Underwriters, who may also be liable under the securities laws for contribution, including persons who control the Company or any Selling Stockholder within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, officers of the Company who signed the Registration Statement and directors of the Company) as incurred to which the Company, the Selling Stockholders and one or more of the Underwriters may be subject, in such proportions as is appropriate to reflect the relative benefits received by the Company, each Selling Stockholder and the Underwriters from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 6.1.2 hereof, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company, the Selling Stockholders and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company, each Selling Stockholder and the Underwriters shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company, on the one hand, and each Selling Stockholder, on the other hand, and (y) the underwriting discounts and commissions received by the Underwriters, respectively, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company, each Selling Stockholder and the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material

fact relates to information supplied by the Company, each Selling Stockholder or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 6.3 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 6.3, (i) in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter hereunder, and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding the provisions of this Section 6.3 and the preceding sentence, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. For purposes of this Section 6.3, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of this Section 6.3. Any party seeking contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 6.3 or otherwise. No party shall be liable for contribution with respect to any action or claim settled without its consent; provided, however, that such consent was not unreasonably withheld. The liability of each Selling Stockholder under this Section 6.3 shall be limited to an amount equal to the total net proceeds from the Underwriters for the Shares sold by each such Selling Stockholder to the Underwriters.

7. Default by an Underwriter.

7.1 Default Not Exceeding 10% of Shares. If any Underwriter or

Underwriters shall default in its or their obligations to purchase the Firm Shares, or the Option Shares if exercised, hereunder, and if the number of Firm Shares or Option Shares with respect to which such default relates does not exceed in the aggregate 10% of the number of Firm Shares or Option Shares that all Underwriters have agreed to purchase hereunder, then such Firm Shares or Option Shares to which the default relates shall be purchased by the non-defaulting Underwriters in proportion to their respective commitments hereunder.

7.2 Default Exceeding 10% of Firm Shares or Option Shares. In the event that such default relates to more than 10% of the Firm Shares or Option Shares, you may in your discretion arrange for yourself or for another party or parties to purchase such Firm Shares or

Option Shares to which such default relates on the terms contained herein. If within one business day after such default relating to more than 10% of Firm Shares or Option Shares you do not arrange for the purchase of such Firm Shares or Option Shares, then the Company shall be entitled to a further period of one business day within which to procure another party or parties satisfactory to you to purchase said Firm Shares or Option Shares on such terms. In the event that neither you nor the Company arrange for the purchase of Firm Shares or Option Shares to which a default relates as provided in this Section 7, this Agreement may be terminated by you or the Company without liability on the part of the Company (except as provided in Sections 4.6 and 6 hereof) or the several Underwriters (except as provided below, with respect to the defaulting Underwriter, and in Section 6 hereof); provided, however, that if such default occurs with respect to the Option Shares this Agreement will not terminate as to the Firm Shares; and provided further that nothing herein shall relieve a defaulting Underwriter of its liability, if any, to the other several Underwriters and to the Company for damages occasioned by its default hereunder.

7.3 Postponement of Closing Date. In the event that the Firm Shares or Option Shares to which the default relates are to be purchased by the non-defaulting Underwriters, or are to be purchased by another party or parties as aforesaid, you or the Company shall have the right to postpone the Closing Date or Option Closing Date for a reasonable period, but not in any event exceeding five business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents or arrangements, and the Company agrees to file promptly any amendment to the Registration Statement or the Prospectus that in the opinion of counsel for the Underwriters may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any party substituted under this Section 7 with like effect as if it had originally been a party to this Agreement with respect to such Shares.

8. Representations and Agreements to Survive Delivery. Except as the context otherwise requires, all representations, warranties and agreements contained in this Agreement shall be deemed to be representations, warranties and agreements at the Closing Dates and such representations, warranties and agreements of the Underwriters, Selling Stockholders and Company, including the indemnity and contribution agreements contained in Section 6 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter, Selling Stockholder, the Company or any controlling person, and shall survive termination of this Agreement or the issuance and delivery of the Shares to the several Underwriters until the earlier of the expiration of any applicable statute of limitations and the seventh anniversary of the later of the Closing Date or the Option Closing Date, if any, at which time the representations, warranties and agreements shall terminate and be of no further force and effect.

9. Effective Date of This Agreement and Termination Thereof.

9.1 Effective Date. This Agreement shall become effective when executed by all parties.

9.2 Termination. You shall have the right to terminate this Agreement at any time prior to any Closing Date, (i) if any domestic or international event or act or occurrence has

materially disrupted, or in your opinion will in the immediate future materially disrupt, general securities markets in the United States; or (ii) if trading on the New York Stock Exchange, the American Stock Exchange, on NASDAQ National or SmallCap Market shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall

have been fixed, or maximum ranges for prices for securities shall have been required on the over-the-counter market by the NASD or by order of the Commission or any other government authority having jurisdiction, or (iii) if the United States involvement in war or major hostilities escalates materially or if a material disruption of trading caused by a terrorist incident or a series of such incidents shall have occurred in the United States, or (iv) if a banking moratorium has been declared by a New York State or federal authority, or (v) if a moratorium on foreign exchange trading has been declared that materially and adversely impacts the United States securities market, or (vi) if the Company shall have sustained a material loss by fire, flood, accident, hurricane, earthquake, theft, sabotage, terrorism or other calamity or malicious act that, whether or not such loss shall have been insured, or (vii) if there occurs a material adverse change in general market conditions, in each case that will, in your opinion, make it impracticable or inadvisable to proceed with the offering, sale and/or delivery of the Shares or to enforce contracts made by the underwriters for the sale of the Shares.

9.3 Expenses. In the event that this Agreement shall not be carried out for any reason whatsoever, within the time specified herein or any extensions thereof pursuant to the terms hereof, the obligations of the Company to pay the expenses related to the transactions contemplated herein shall be governed by Section 4.6 hereof.

9.4 Indemnification. Notwithstanding any contrary provision contained in this Agreement, any election hereunder or any termination of this Agreement, and whether or not this Agreement is otherwise carried out, the provisions of Section 6 shall not be in any way affected by such election or termination or failure to carry out the terms of this Agreement or any part hereof.

10. Miscellaneous.

10.1 Notices. All communications hereunder, except as herein otherwise specifically provided, shall be in writing and shall be mailed, delivered or facsimiled and confirmed.

If to the Representative:

Flagstone Securities
347 West 57th Street
34th Floor
New York, New York 10019
Attention: Philip G. Putnam
Facsimile: (212) 262-0989

Copy to:

Davis & Gilbert LLP
1740 Broadway
New York, New York 10019
Attention: Ralph W. Norton, Esq.
Facsimile: (212) 468-4888

If to the Company:

PureCycle Corporation
8451 Delaware Street
Thornton, Colorado 80260
Attention: Mark Harding, President
Facsimile: (303) 292-3475

Copy to:

Davis Graham & Stubbs LLP
Suite 500
1550 Seventeenth Street
Denver, Colorado 80202
Attention: Wanda Abel, Esq.
Facsimile: (303) 893-1379

If to a Selling Stockholder, to the address specified in the Selling Stockholder Documents.

10.2 Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

10.3 Amendment. This Agreement may be amended only by a written

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instrument executed by each of the parties hereto.

10.4 Entire Agreement. This Agreement (together with the other
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agreements and documents being delivered pursuant to or in connection with this Agreement) constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings of the parties, oral and written, with respect to the subject matter hereof.

10.5 Binding Effect. This Agreement shall inure solely to the benefit
----
of and shall be binding upon, the Representative, the Underwriters, the Company, each Selling Stockholder and the controlling persons, directors and officers referred to in Section 6 hereof, and their respective successors, legal representatives and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provisions herein contained.

10.6 Failure of One or More of the Selling Stockholders to Sell and
----
Deliver Shares. If one or more of the Selling Stockholders shall fail to sell
----
and deliver to the Underwriters the Shares to be sold and delivered by such Selling Stockholders at the Closing Date pursuant to this Agreement, the Company hereby agrees, at the option of the Underwriters, to sell and deliver to the Underwriters any or all of the Shares (the "Company Reallocation") not sold and delivered by such Selling Stockholders. The Underwriters shall determine the allocation of Shares sold in connection with the Company Reallocation. If one or more of the Selling Stockholders shall fail to sell and deliver to the Underwriters the Shares to be sold and delivered by such Selling Stockholders pursuant to this Agreement at the Closing Date, then the Underwriters shall have the right, by written notice from the Representatives to the Company and the Selling Stockholders, to postpone the Closing Date, but in no event for longer than three Business Days in order that the required changes, if any, to the Registration Statement and the Prospectus or any other documents or arrangements may be effected.

10.7 Governing Law. This Agreement shall be governed by and construed
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and enforced in accordance with the law of the State of Delaware, without giving effect to principles of conflicts of law.

10.8 Execution in Counterparts. This Agreement may be executed in one
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or more counterparts, and by the different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement, and shall become effective when one or more counterparts has been signed by each of the parties hereto and delivered to each of the other parties hereto.

10.9 Waiver, Etc. The failure of any of the parties hereto at any
----
time to enforce any of the provisions of this Agreement shall not be deemed or construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any provision hereof or the right of any of the parties hereto thereafter to enforce each and every provision of this Agreement. No waiver of any breach, non-compliance or non-fulfillment of any of the provisions of this Agreement shall be effective unless set forth in a written instrument executed by the party or parties against whom or which enforcement of such waiver is sought; and no waiver of any such breach, non-compliance or non-fulfillment shall be construed or deemed to be a waiver of any other or subsequent breach, non-compliance or non-fulfillment.

If the foregoing correctly sets forth the understanding among the Underwriters, the Company and the Selling Stockholders, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between us.

Very truly yours,

PURE CYCLE CORPORATION

By:

Name: Mark Harding
Title: President

SELLING STOCKHOLDERS LISTED ON SCHEDULE II

By:

Attorney-in-Fact for the Selling
Stockholders listed on Schedule II hereto

Accepted as of the date first
above written.

New York, New York

FLAGSTONE SECURITIES

By:

Name: Philip G. Putnam
Title: Managing Director

<TABLE>
<CAPTION>

SCHEDULE I

PURE CYCLE CORPORATION

3,205,367 SHARES OF COMMON STOCK

Underwriter	Number of Firm Shares to be Purchased
<S>	<C>
Flagstone Securities	
	3,205,367

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<CAPTION>

SCHEDULE II

- SELLING STOCKHOLDERS

Name	Number of Firm Shares to be Sold
<S>	<C>
Inco Securities Corporation	470,000
Landmark Water Partners, L.P.	136,573
Alan C. Stormo	18,000
D.W.Pettyjohn	7,500
Beverly A. Beardslee	18,000
Robert Douglas Beardslee	9,000
Bradley Kent Beardslee	9,000
Fayyaz & Company, Inc.	30,000
International Properties, Inc.	60,000
Apex Investment Fund II, L.P.	484,210
Environmental Venture Fund Liquidating Trust	178,276
The Productivity Fund II, L.P.	135,717
Landmark Water Partners II, L.P.	38,533

Proactive Partners, L.P.	80,124
Environmental Private Equity Fund II, L.P.	201,797
Gregory M. Morey	16,024
Don Fogel	16,024
George Middlemas	100,000
Margaret S. Hansson	200,000
Susan Byrom Evans	26,667
Carol Byrom Conrad	26,700
Fletcher L.Byrom, Jr.	22,222
Thomas P. Clark	100,000
Mark W. Harding	121,000
	2,505,367

</TABLE>

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AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

PURE CYCLE CORPORATION

PURSUANT TO SECTION 245 OF THE

DELAWARE GENERAL CORPORATION LAW

Pure Cycle Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. That the present name of the Corporation is Pure Cycle Corporation.

2. That the Certificate of Incorporation (as amended, the "Certificate of Incorporation") of the Corporation was originally filed in the office of the Secretary of State of the State of Delaware on April 1, 1976.

3. That the text of the Certificate of Incorporation is hereby amended and restated, effective at 8:00 a.m. Eastern time, on April 26, 2004, to read in its entirety as follows:

ARTICLE I

NAME

The name of the corporation is Pure Cycle Corporation.

ARTICLE II

REGISTERED AGENT AND OFFICE

The registered agent of the corporation shall be The Company Corporation and its office is located at 1300 Market Street, Wilmington, Delaware 19801, New Castle County.

ARTICLE III

PURPOSES

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

CAPITAL STOCK

Section 1. Authorized Shares. The number of shares of capital stock of all classes which the Corporation shall have authority to issue is two hundred fifty million (250,000,000) shares, of which two hundred twenty-five million (225,000,000) shares shall be of a class designated as "common stock," with a par value of one-third of one cent ($.00333) per share, and twenty-five million (25,000,000) shares shall be of a class designated as "Preferred Stock," with a par value of one-tenth of one cent ($.001) per share.

Effective at 8:00 a.m., Eastern Time, on April 26, 2004 (the "Effective Time"), each 10 shares of Common Stock of the Corporation issued and outstanding immediately prior to the Effective Time (the "Old Common Stock") shall be automatically reclassified as and combined into, without any further action, one (1) fully-paid and nonassessable share of the same class of Common Stock of the Corporation, par value one-third of one cent ($.00333) (the "New Common Stock"), provided that no fractional shares shall be issued to any holder of less than 10 shares of Old Common Stock immediately before the Effective Time, and that instead of issuing such fractional shares, the Corporation shall pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined.

Section 2. Designations, Powers and Preferences. The designations and

the powers, preferences and rights, and the qualifications, limitations or restrictions of the shares of each class of stock are as follows:

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

B. Preferred Stock. Shares of Preferred Stock may be issued in one or more series at such time or times as the Board of Directors may determine. All shares of any one series of Preferred Stock shall be of equal rank and identical in all respects except as to the dates from and after which dividends thereon shall cumulate, if cumulative. The number of authorized shares of Preferred Stock may be increased or decreased by the affirmative vote of a majority of the stock of the Corporation entitled to vote without the separate vote of holders of Preferred Stock as a class. Subject to the limitations hereof and the limitations prescribed by law, the Board of Directors is expressly authorized to fix from time to time, by resolution or resolutions adopted prior to the issuance of and providing for the establishment and/or issuance of any series of Preferred Stock, the designation of such series and the powers, preferences, and rights of such

series, and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each such series shall include, but shall not be limited to, determination of the following:

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

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

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

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

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

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

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

series shall be subject to restrictions as to issuance, or as to the powers, preferences or rights of any such other series;

(viii) Voting rights, if any, including, without limitation, the authority to confer multiple votes per share, voting rights as to specified matters or issues or, subject to the

provisions of this Certificate of Incorporation, voting rights to be exercised either together with holders of Common Stock as a single class, or independently as a separate class; and

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

C. Series A-1 Convertible Preferred Stock.

(i) Number of Shares and Designation. 1,600,000 shares of the Preferred Stock, $.001 par value, of the Corporation are hereby constituted as a series of the Preferred Stock designated as Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred Stock").

(ii) Liquidation.

1. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series A-1 Preferred Stock will be entitled to be paid, before any distribution or payment is made upon any other equity securities of the Corporation, the amount of $2.00 per share less an amount equal to all dividends paid thereon (the "Liquidation Value"); provided, however, that such preference on liquidation shall only be paid from the Export Water or the proceeds of a disposition of such asset.

2. In addition to the preference provided for in this Section (ii), upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary the holders of the Series A-1 Preferred Stock will be entitled to share in any distribution or payment made to the holders of Common Stock, whether from the Export Water or otherwise, on a pro rata basis with the holders of the Common Stock determined as if such holders had converted their Series A-1 Preferred Stock to Common Stock pursuant to Section (iv) hereof immediately prior to such liquidation, dissolution or winding up.

3. The Corporation will mail written notice of any distribution in connection with such liquidation, dissolution or winding up, not less than 60 days prior to the payment date stated therein, to each record holder of Series A-1 Preferred Stock. Neither the consolidation or merger of the Corporation into or with any other corporation or corporations, nor the sale or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation, will be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section (ii).

(iii) Dividends.

1. General Obligations. The holders of the Series A-1 Preferred Stock shall be entitled to receive cash dividends, as set forth in this Section (iii) or when and as declared by the board of directors out of funds legally available for such purpose in a total amount of $2.00 per share, and no more. Each share of Series A-1 Preferred Stock shall earn and accrue a dividend only if and when Gross Proceeds, after payment of royalties pursuant

to the Amended and Restated Lease, are received from the marketing, sale or other disposition of the Export Water by Inco Securities Corporation, the Corporation or the Export Water Contractor in the amounts set forth below (a "Qualifying Rangeview Sale"):

Series	Proceeds Required
Series A-1	$23,036,233 to $32,026,232

Such dividend shall be paid upon completion of any Qualifying Rangeview Sale unless payment is prohibited by Delaware law. The holders of the Series A-1

Preferred Stock shall be entitled to 35.6% of that portion of the proceeds between $23,036,233 and $32,026,232 from a Qualifying Rangeview Sale up to the total amount of $3,200,000 ($2.00 per share). No dividends shall be paid on Common Stock unless all dividends accrued on the Series A-1 Preferred Stock have been paid.

2. Distribution of Partial Dividend Payment. If at any time less than the total amount of dividends have accrued with respect to the Series A-1 Preferred Stock, any such payment will be distributed ratably among the holders of the Series A-1 Preferred Stock based upon the number of shares held by such holders.

3. Cessation of Dividend Earnings. Once the Corporation sells, transfers or otherwise conveys all of its remaining interest in the Export Water or its interest in such asset expires and the Corporation has received all proceeds available to it from such asset, the Series A-1 Preferred Stock will cease to accrue dividends even if the earnings from the Export Water total less than $32,026,232.

(iv) Conversion.

1. Right to Convert. Each share of Series A-1 Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the Issuance Date of such share at the office of the Corporation, into 5.5556 fully paid and non-assessable shares of Common Stock (the "Conversion Rate").

2. Fractional Shares. In the event the aggregate number of shares of Series A-1 Preferred Stock being converted by a holder thereof is convertible into a number of shares of Common Stock which would require the issuance of a fractional interest in a share of Common Stock, the Corporation shall deliver cash in the amount of the fair market value of such fractional interest.

3. Accrued Dividends. If, at the time the holder of shares of Series A-1 Preferred Stock exercises its right of conversion under Section (iv)(1), such holder's shares of Series A-1 Preferred Stock have accrued dividends which remain unpaid at the time of such conversion, such holder's right to receive dividends on the shares so converted, to the extent accrued but unpaid on the date of conversion, shall continue.

4. Mandatory Conversion. In the event that (i) the full dividends earnable on the Series A-1 Preferred Stock have been paid, or (ii) the Corporation has sold, transferred, or otherwise conveyed all of its remaining interest in the Export Water or its

interest in such asset has expired, or (iii) a majority of the board of directors and the holders of a majority of the Series A-1 Preferred Stock then outstanding voting as a class determine that it is no longer economically feasible to develop the Export Water, all shares of Series A-1 Preferred Stock shall thereupon be converted into shares of Common Stock of the Corporation at the Conversion Rate then in effect. Any such conversion shall be deemed to take place at 5:01 Mountain Time on the day such dividends are paid, such interest is sold, transferred, or otherwise conveyed or expires, or the vote of the board of directors and the holders of the Series A-1 Preferred Stock becomes effective, and at that time the holders of the Series A-1 Preferred Stock shall be treated for all purposes as the record holders of shares of Common Stock; provided, however, that the right to receive dividends on the shares so converted, to the extent accrued but unpaid (whether or not declared) on the date of such conversion, shall continue.

5. Mechanics of Conversion. Before any holder of the Series A-1 Preferred Stock shall be entitled to voluntarily convert the same into shares of Common Stock, and before the holder of Series A-1 Preferred Stock that has been converted into Common Stock pursuant to Section (iv)(4) above shall be entitled to receive a replacement certificate therefor, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, in the case of a conversion pursuant to Section (iv)(1) above, shall give written notice to the Corporation at such office that he or she elects to convert the same and shall state therein his or her name or the name or names of his or her nominees in which he or she wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such

office to such holder of the Series A-1 Preferred Stock, or to his or her nominee or nominees, a certificate or certificates for the number of shares of Common Stock to which he or she shall be entitled as aforesaid. Any optional conversion shall be deemed to have taken place at 5:01 Mountain Time on the date of such surrender of the shares to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date; provided, however, that the right to receive dividends on the shares so converted, to the extent accrued but unpaid on the date of such conversion (whether or not declared), shall continue.

6. Adjustment for Combinations or Consolidations of Common Stock. In the event the Corporation at any time or from time to time after the Issuance Date effects a subdivision, combination or reclassification of its outstanding shares of Common Stock into a greater or lesser number of shares, then and in each such event the Conversion Rate shall be increased or decreased proportionately.

7. Adjustments for Merger or Reorganization, etc. In case of any consolidation or merger of the Corporation with or into another corporation or the conveyance of all or substantially all of the assets of the Corporation to another corporation or other person, provision shall be made so that each share of the Series A-1 Preferred Stock shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such Series A-1 Preferred Stock would have been entitled upon such consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the board of directors) shall be made in the application of the provisions herein set forth with respect to the rights and interest thereafter of the holders of the Series A-1 Preferred

Stock, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the Conversion Rate) shall thereafter be applicable, as nearly as they reasonably may be, in relation to any shares of stock or other securities or property thereafter deliverable upon the conversion of the Series A-1 Preferred Stock.

(v) Voting.

1. Except as set forth in Section (v)(2), holders of the Series A-1 Preferred Stock shall have the right to vote together with the Common Stock, and not separately as a class, for the election of directors and upon all other matters to be voted on by the holders of the Common Stock of the Corporation. Every holder of shares of the Series A-1 Preferred Stock shall have the number of votes equal to the number of shares of Common Stock that his or her shares of Series A-1 Preferred Stock would be convertible into pursuant to Section (iv) on the record date of the meeting at which such shares are being voted multiplied by 1.25.

2. So long as any shares of the Series A-1 Preferred Stock remain outstanding, the consent of the holders of a majority of the shares of the Series A-1 Preferred Stock outstanding voting separately as a class (with each share being entitled to one vote) in person or by proxy, either in writing or at any special or annual meeting, shall be necessary to permit, effect or validate any one or more of the following:

a. The authorization, creation or issuance, or any increase in the authorized or issued amount, of (a) Series A-1 Preferred Stock or (b) any class or series of stock ranking prior to or on a parity with the Series A-1 Preferred Stock as to dividends from earnings from the Export Water or the distribution of the Export Water or the proceeds therefrom;

b. The amendment, alteration or repeal, whether by merger, consolidation or otherwise, of any of the provisions of the Certificate of Incorporation of the Corporation which would adversely affect any right, preference or voting power of the Series A-1 Preferred Stock or of the holders thereof.

c. Any transaction by the Corporation which would have the effect of decreasing the Surplus (as defined in Section 154 of the Delaware General Corporation Law) of the Corporation by more than $500,000 or which would cause its Surplus to be equal to less than $1,000,000;

d. Any expenditures by the Corporation in excess of $50,000 in any one month at any time that the Corporation's Surplus is equal to or less than $1,000,000; and

e. The merger or consolidation of the Corporation with or into one or more other corporations or business entities where the Corporation is not the surviving entity; provided, however, that no such consent shall be required if the merger and governing documents of the surviving entity provide for the issuance of securities to holders of the Series A-1 Preferred Stock with economic and voting rights equivalent to the rights accorded the Series A-1 Preferred Stock under this Certificate.

3. At each meeting or at any adjournment thereof at which the holders of the Series A-1 Preferred Stock have the right to vote as a class, the presence, in person or by proxy, of the holders of a majority of the Series A-1 Preferred Stock then outstanding will be required to constitute a quorum. The vote of a majority of such quorum will be required to take any action at such meeting. Cumulative voting by holders of Series A-1 Preferred Stock is prohibited. In the absence of a quorum, a majority of the holders present in person or by proxy of the Series A-1 Preferred Stock shall have the power to adjourn the portion of the meeting related to that particular series for a period of up to 30 days without notice other than announcement at the meeting until a quorum shall be present.

(vi) Corporation's Right to Purchase Series A-1 Preferred Stock.

1. The Corporation shall have the right to purchase shares of Series A-1 Preferred Stock in the public market at such prices as may then be available in the public market for such shares and shall have the right at any time to acquire any Series A-1 Preferred Stock from the owner of such shares on such terms as may be agreeable to such owner. Shares of Series A-1 Preferred Stock may be acquired by the Corporation from any stockholder pursuant to this Section (vi)(1) without offering any other stockholder an equal opportunity to sell his stock to the Corporation, and no purchase by the Corporation from any stockholder pursuant to this Section (vi)(1) shall be deemed to create any right on the part of any stockholder to sell any shares of Series A-1 Preferred Stock (or any other stock) to the Corporation. The purchase by the Corporation of shares of Series A-1 Preferred Stock pursuant to this Section (vi)(1) shall not be deemed for any purpose to be a redemption. Such shares shall not be entitled to receive dividends while held by the Company.

2. Notwithstanding the foregoing provisions of this Section (vi) if a dividend upon any shares of Series A-1 Preferred Stock is past due, the Corporation shall not purchase or otherwise acquire any shares of Series A-1 Preferred Stock, except (i) pursuant to a purchase or exchange offer made on the same terms to all holders of the Series A-1 Preferred Stock, or (ii) by conversion of shares of Series A-1 Preferred Stock into, or exchange of such shares for, Common Stock or any other stock of the Corporation ranking junior to the Series A-1 Preferred Stock as to dividends and upon liquidation, dissolution or winding up of the Corporation.

3. No holder of Series A-1 Preferred Stock shall have any right to require the Corporation to redeem any or all of the shares of Series A-1 Preferred Stock.

(vii) Preemptive Rights. The holders of shares of Series A-1 Preferred Stock are not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

(viii) Notices. Any notice required hereby to be given to the holders of shares of Series A-1 Preferred Stock shall be sufficiently given if sent by telecopier, registered or certified mail, postage prepaid, by express mail or by other express courier addressed to each holder of record at his address appearing on the books of the Corporation. All notices and other communications shall be effective (i) if mailed, when received or three (3) days after mailing, whichever is earlier; (ii) if sent by express mail or courier, when delivered; and (iii) if telecopied,

when received by the telecopier to which transmitted (a machine-generated transaction report produced by sender bearing recipient's telecopier number being prima facie proof of receipt).

(ix) Transfer Costs. The Corporation shall pay any and all documentary stamp and other transaction taxes attributable to the issuance or delivery of shares of Common Stock upon conversion of any shares of Series A-1 Preferred Stock; provided, however, that the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the holder of the Series A-1 Preferred Stock to be converted and no such issue or

delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(x) Definitions.

1. "Issuance Date" shall mean the initial date of the issuance of any shares of the Series A-1 Preferred Stock.

2. "Amended and Restated Lease" shall mean the lease between the Rangeview Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado, and the State of Colorado acting through the State Board of Land Commissioners (the "State") denominated State Lease Number S-37280, dated April 26, 1982, as amended and restated April 11, 1996.

3. "Comprehensive Amendment Agreement No. 1" shall mean the agreement entered into as of April 11, 1996 among the Corporation, the State, OAR, Incorporated, Willard G. Owens, H.F. Riebesell, and various investors who had invested in the Corporation through investment agreements and stock purchase agreements entered into from 1990 through 1994, which agreement amends the Corporation's obligations under the prior investment and stock purchase agreements and defines the rights of the parties to Gross Proceeds from the marketing, sale, or other disposition of the Export Water.

4. "Export Water" shall mean the 1,165,000 acre-feet of water deeded by Rangeview and the State to the Corporation pursuant to the terms of the Amended and Restated Lease and an agreement for the sale of export water (the "Export Water Agreement"), which is attached to the Amended and Restated Lease as Exhibit C.

5. "Export Water Contractor" shall have the meaning set forth in Section 6.1 of the Amended and Restated Lease.

6. "Gross Proceeds" shall have the meaning set forth in Section 2.4 of the Comprehensive Amendment Agreement.

D. Series B Preferred Stock.

(i) Number of Shares and Designation. 432,514 shares of the preferred stock, $.001 par value, of the Corporation are hereby constituted as a series of preferred

stock of the Corporation designated as Series B Convertible Preferred Stock (the "Series B Preferred Stock").

(ii) Liquidation.

1. Liquidation Value. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series B Preferred Stock will be entitled to be paid, before any distribution or payment is made upon any other equity securities of the Corporation, the amount of $1.00 per share less an amount equal to all dividends paid thereon (the "Liquidation Value"); provided, however, that with respect to the Rangeview Assets, the Series B Preferred Stock shall be subject and junior to the rights and preferences of the holders of the Corporation's Series A-1 Preferred Stock in Rangeview Assets and the proceeds of a disposition of such assets.

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

(iii) Dividends.

1. General Obligations. The holders of the Series B Preferred Stock shall be entitled to receive cash dividends when and as declared by the Board of Directors out of funds legally available for such purpose in a

total amount of $1.00 per share, and no more. Each share of Series B Preferred Stock shall earn and accrue a dividend if and when the Corporation receives proceeds from (i) the retirement of the Rangeview Bonds whether for cash or for new bonds or other debt obligations of the District or (ii) the marketing, sale or other distribution of the Rangeview Water Right or the water underlying such right in an amount greater than $35,000,000 plus PPI (a "Qualifying Sale"). Such dividend shall be paid when and as declared by the Board of Directors and upon completion of any Qualifying Rangeview Sale unless payment is prohibited by Delaware law. No dividends shall be paid on Common Stock unless all dividends accrued on the Series B Preferred Stock have been paid.

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

3. Junior Dividend Right. Dividends may accrue but shall not
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be paid by the Corporation on the Series B Preferred Stock utilizing the Rangeview Assets or the proceeds therefrom unless all dividends accrued on the Corporation's Series A-1 Preferred Stock have been paid in full.

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

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

3. Limitation on Use Rangeview Assets. The Series B

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

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

5. Return of Stock Certificates. The holder of any shares of

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

6. Extinguishment of Rights. At the close of business on the

Redemption Date for any share of Series B Preferred Stock to be redeemed, such

share shall (provided the Redemption Price of such share has been paid or properly provided for) be deemed to cease to be outstanding and all rights of any person other than the Corporation in such share shall be extinguished on the Redemption Date for such share except for the right to receive the

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

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

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

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

(v) Voting.

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

2. Default Voting Rights. Whenever dividends on the Series B Preferred Stock shall have accrued pursuant to Section (iii)(1), but have not been declared by the Board of Directors, the holders of the Series B Preferred Stock shall be entitled to vote with the holders of the Common Stock at any meeting of the shareholders of the Corporation held during the period such dividends remain in arrears. Each share of Series B Preferred Stock shall have one vote when voting with the Common Stock. The right of the holders of the Series B Preferred Stock to vote with the Common Stock shall terminate when all accrued and unpaid dividends on the Series B Preferred Stock have been declared and paid or set apart for payment.

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

Corporation; or (b) the authorization, issuance or increase in the amount of any notes, commercial paper, bonds, mortgages, debentures or other obligations of the Corporation.

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

(vi) Definitions.

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

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

3. "Rangeview Assets" shall mean the Rangeview Bonds and Rangeview Water Rights which the Corporation has rights to market and develop pursuant to a Water Rights Commercialization Agreement (the "Commercialization Agreement") with Inco Securities Corporation dated as of December 11, 1990, and amended February 12, 1991, and further amended August 12, 1992, and as may be further amended from time to time.

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

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

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

ARTICLE V

COMPROMISE AND ARRANGEMENT

Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority of members representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as a consequence of such compromise or arrangement and the said reorganization, shall, if sanctioned by the court to which said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders of this corporation, as the case may be, and also on this corporation.

ARTICLE VI

INDEMNIFICATION

(a) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee, or agent of the

corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement or otherwise actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

(b) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) To the extent that any person referred to in the preceding two sections of this Article VI has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in such sections, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under the first two sections of this Article VI (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth therein. Such determination shall be made (a) by the board of directors by a majority vote of a quorum (as defined in the bylaws of the corporation) consisting of directors who were not parties to such action, suit or proceeding, or (b) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders.

(e) Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized by the board of directors of the corporation in the specific case upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this Article VI.

(f) The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled, under any statute, bylaw, agreement, insurance policy, vote of shareholders or disinterested director or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) By action of its board of directors, notwithstanding any interest of the directors in the action, the corporation shall have power to purchase and maintain insurance, in such amounts as the board of directors deems appropriate, on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not he is indemnified against such liability or expense under the provisions of this Article VI and whether or not the corporation would have the power or would be required to indemnify him against such liability under the provisions of this Article VI or of the General Corporation Law of the State of Delaware, now or hereafter in effect, or by any other applicable law.

(h) For the purpose of this Article VI, references to "the corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article VI with respect to the resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity.

ARTICLE VII

BYLAWS

The Board of Directors of the corporation shall have the power to adopt, amend or repeal bylaws for the governance of the corporation.

ARTICLE VIII

LIMITATION OF DIRECTOR LIABILITY

A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If, after approval by the stockholders of this Article, the Delaware General Corporation Law is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

* * * * *

This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 242 and 245 of the General Corporation Law of Delaware and was duly adopted by vote of the stockholders of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of Delaware.

In witness whereof, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed by its duly authorized officer as of this 22nd day of April, 2004.

PURE CYCLE CORPORATION

By: /s/Scott E. Lehman

Scott E. Lehman, Secretary

AGREEMENT TO AMEND/EXTEND
WATER SERVICE AGREEMENT
FOR THE
SKY RANCH PUD

January 6,2004

RE: Water Service Agreement dated October 31. 2003 by and between AIRPARK METROPOLITAN DISTRICT ("AMD"); ICON INVESTORS 1 LLC ("DEVELOPER"); PURE CYCLE CORPORATION ("PURECYCLE"); and RANGE VIEW METROPOLITAN DISTRICT ("RANGEVIEW") relating to the provision of water services to the Sky Ranch PUD (Arapahoe County case No. Z01-010).

This Amendment, dated January 6. 2004, shall amend the aforesaid water service agreement as follows:

Section 10.02, Termination Contingency, Subsection (c) shall be amended to read as follows:

(c) Water Rights. If AMD or the DEVELOPER are unsatisfied with the opinion of water counsel provided pursuant to Section 6.03(e), AMD or the DEVELOPER shall have the right to terminate this Agreement by giving written notice to RANGEVIEW and PURECYCLE. In no event shall AMD or DEVELOPER have the right to terminate this Agreement pursuant to this Section after the Board of County Commissioners of Arapahoe County has approved the PDP, or March 6, 2004, whichever is latest.

AIRPARK METROPOLITAN DISTRICT

By: /s/ Andrew R. Klein
Andrew R. Klein, President

ICON INVESTORS I LLC

By: AIRWAY PARK MANAGER, LLC, A COLORADO LIMITED LIABILITY COMPANY

By: /s/ Andrew R. Klein
Andrew R. Klein, its Manager

PURE CYCLE CORPORATION, A DELAWARE CORPORATION

By: /s/ Mark Harding
Mark Harding, President

RANGEVIEW METROPOLITAN DISTRICT

By: /s/ Thomas P. Clark
Thomas P. Clark, Director

AGREEMENT TO AMEND
WATER SERVICE AGREEMENT
FOR THE
SKY RANCH PUD

Dated: January 30. 2004

RE: Water Service Agreement dated October 31. 2003 by and between Airpark Metropolitan District ("AMD"); Icon Investors I LLC ("DEVELOPER"); Pure Cycle Corporation ("PURECYCLE"); and Rangeview Metropolitan District ("RANGEVIEW") relating to the provision of water services to the Sky Ranch PUD (Arapahoe County case No. Z01-010).

This Amendment, dated January 30, 2004, shall amend the aforesaid Water Service Agreement as follows:

Section 4.02 of the above referenced Water Service agreement is hereby amended to read as follows, with amended language being designated in BOLD TYPE:

"4.02 Water Tap Fees. DEVELOPER shall purchase Water Taps from PURECYCLE for use on the Property in accordance with the "Water Tap Takedown Schedule" in Exhibit C. FOR EACH WATER TAP PURCHASED BY DEVELOPER FOR SERVICE FROM 1,501 EQR TO 4,000 EQR, DEVELOPER SHALL PAY THE WATER RESOURCE CHARGE PORTION OF THE WATER TAP FEE DIRECTLY TO THE DAVIS GRAHAM & STUBBS LLP TRUST ACCOUNT. SUCH WATER RESOURCE CHARGE SHALL BE USED TO RELEASE OUTSTANDING SECURITY INTERESTS ON THE DEDICATED EXPORT WATER."

AIRPARK METROPOLITAN DISTRICT

By: /s/ Andrew R. Klein
Andrew R. Klein, President

ICON INVESTORS I, LLC, a Colorado Limited Liability Company

By: Airway Park Manager, LLC, a Colorado Limited Liability Company

By: /s/ Andrew R. Klein
Andrew R. Klein, its Manager

PURE CYCLE CORPORATION, a Delaware Corporation

By: /s/ Mark Harding
Mark Harding, President

RANGEVIEW METROPOLITAN DISTRICT

By: /s/ Thomas P. Clark
Thomas P. Clark, Director

AGREEMENT TO AMEND
OPTION AGREEMENT FOR EXPORT WATER SERVICE
FOR THE
SKY RANCH PUD

Dated: January 30. 2004

RE: Option Agreement dated October 31. 2003 by and between Airpark Metropolitan District ("AMD"); Icon Investors I LLC ("DEVELOPER"); Pure Cycle Corporation ("PURECYCLE"); and Rangeview Metropolitan District ("RANGEVIEW") relating to the provision of water services to the Sky Ranch PUD (Arapahoe County case No. Z01-010).

This Amendment, dated January 30, 2004, shall amend the aforesaid Option Agreement for Export Water Service follows:

Section 2.03 of the above referenced Option Agreement is hereby amended to read as follows, with changes being highlighted in BOLD TYPE:

"203 Extension of Option. In the event that the DEVELOPER has not exercised the Option in accordance with Section 2.01, the DEVELOPER may extend the Option for up to an additional three one-year terms by making payments DIRECTLY TO THE DAVIS GRAHAM & STUBBS LLP TRUST ACCOUNT of One Hundred Thousand Dollars ($100,000) (the Option Extension Fee) for each additional one-year extension term. Payments shall be due on the fifth Anniversary for a one year extension, on the fifth and sixth Anniversaries for a two year extension, and on the fifth, sixth and seventh Anniversaries for a three year extension. ANY SUCH PAYMENTS FOR EXTENDING THE OPTION SHALL BE USED TO RELEASE OUTSTANDING SECURITY INTERESTS ON THE DEDICATED EXPORT WATER."

AIRPARK METROPOLITAN DISTRICT

By: /s/ Andrew R. Klein
Andrew R. Klein, President

ICON INVESTORS I, LLC, A Colorado Limited Liability Company
By: Airway Park Manager LLC, a Colorado Limited Liability Company

By: /s/ Andrew R. Klein
Andrew R. Klein, its Manager

PURE CYCLE CORPORATION, a Delaware Corporation

By: /s/ Mark Harding
Mark Harding, President

RANGEVIEW METROPOLITAN DISTRICT

By: /s/ Thomas P. Clark
Thomas P. Clark, Director

SECOND AMENDMENT TO
AGREEMENT TO AMEND/EXTEND
WATER SERVICE AGREEMENT
FOR THE
SKY RANCH PUD

March 5, 2004

RE: Water Service Agreement dated October 31, 2003 by and between AIRPARK METROPOLITAN DISTRICT ("AMD"); ICON INVESTORS I LLC ("DEVELOPER"); PURE CYCLE CORPORATION ("PURECYCLE"); and RANGEVIEW METROPOLITAN DISTRICT "(RANGEVIEW") relating to the provisions of water services to the Sky Ranch PUD (Arapahoe County case No. Z01-010).

This Amendment, dated March 5, 2004, shall amend the aforesaid water service agreement as follows:

Section 10.2, Termination Contingency, Subsection (c) shall be amended to read as follows:

(c) Water Rights. If AMD or the DEVELOPER are satisfied with the opinions of water counsel provided pursuant to Section 6.03(e), AMD or the DEVELOPER shall have the right to terminate this agreement by giving written notice to RANGEVIEW and PURECYCLE. In the event shall AMD or DEVELOPER have the right to terminate this Agreement pursuant to this Section after the Board of County Commissioners of Arapahoe County has approved the PDP, on March 20, 2004, whichever is latest.

AIRPARK METROPOLITAN DISTRICT

By: [signature not legible]

ICON INVESTORS I LLC, a Colorado Limited Liability Company

By: AIRWAY PARK MANAGER LLC, A COLORADO LIMITED LIABILITY COMPANY

By: [signature not legible]

PURE CYCLE CORPORATION, a Delaware Corporation

By: /s/ Mark Harding

Mark Harding, President

RANGEVIEW METROPOLITAN DISTRICT

By: /s/ Thomas P. Clark

Thomas P. Clark, Director

AMENDED AND RESTATED LEASE AGREEMENT

between

STATE OF COLORADO, ACTING BY AND THROUGH THE
STATE BOARD OF LAND COMMISSIONERS, LESSOR

and

RANGEVIEW METROPOLITAN DISTRICT, LESSEE

Lease No. S-37280

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EXHIBITS

AMENDED AND RESTATED LEASE AGREEMENT

THIS AMENDED AND RESTATED LEASE AGREEMENT is by and between the State of Colorado, acting through its State Board of Land Commissioners and Rangeview Metropolitan District, a state quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water activity enterprise.

NOW, THEREFORE, in consideration of the promises hereinafter stated, to be kept and performed by the Parties, their successors and assigns, the Parties agree as follows:

ARTICLE 1
Definitions

"Agreement" shall be defined to mean this Amended and Restated Lease Agreement, Lease No. S-37280, dated April 4, 1996.

"Annual Rent" shall be defined as set forth in Section 7.1.

"Construction" shall be defined as set forth in Section 5.1.

"Delivered Basis" shall be defined as set forth in Section 7.2(d)(2).

"Effective Date" shall be defined as set forth in Section 3.1.

"East Cherry Creek Agreement" shall be defined to mean that certain agreement dated July 8, 1983 by and between OAR, Incorporated (Rangeview's predecessor), and East Cherry Creek Valley Water and Sanitation District.

"ECCV" shall be defined to mean East Cherry Creek Valley Water and Sanitation District.

"Enterprise" shall be defined as Rangeview's water activity enterprise established by resolution of Rangeview adopted at a public meeting of Rangeview's board of directors on September 11, 1995, and effective as of the date of its adoption.

"Entitlement Basis" shall be defined to mean a sale or other disposition of water to a third party with the third party bearing all costs of withdrawal, treatment and delivery.

"Export Water" shall be defined as set forth in Section 6.1.

"Export Water Contractor" shall be defined as set forth in Section 6.1.

"Export Water Purchaser" shall be defined to mean the person or entity who purchases Export Water other than the Export Water Contractor and a retail end user.

"Force Majeure" shall be defined as set forth in Section 15.20.

"Gross Revenues" shall be defined to mean all pre-tax amounts or consideration actually received directly or indirectly by Rangeview or the Export Water Contractor, as applicable, from the sale or other disposition of Water Rights, including tap fees, usage fees, service charges and all other revenues, excluding taxes and refunds.

"Index" shall be defined to mean the Consumer Price Index for Urban Consumers-All items (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor. In the event that the Index shall subsequently be converted to a different standard reference base or otherwise revised, the determination involved shall be made with the use of such conversion factor, formula or table for converting said Index as may be published by the Bureau of Labor Statistics, or if said Bureau shall not publish the same, then with the use of such conversion factor, formula or table as may be published by Prentice Hall, Inc., or, failing such publication, by any other nationally recognized publisher of similar statistical information. In the event that the Index shall cease to be published, then for the purposes of this Agreement, there shall be substituted such other index as the Parties shall agree upon, and if they are unable to agree, then ninety (90) days after the Index ceases to be published, such matters shall be determined by arbitration as provided in Section 15.16 of this Agreement.

"Initial Export Royalty Rates" shall be defined as set forth in Section 7.2(a).

"Initial Permitted Sale" shall be defined as set forth in Section 6.1.

"Land Board" is defined to mean the State of Colorado acting by and through its State Board of Land Commissioners.

"Lease" is defined to mean the aggregate of the following:

a. Lease S-37280, dated April 26, 1982 between the Land Board and OAR, Inc., whose rights and obligations were subsequently conveyed to Lowry Range Metropolitan District, now known as Rangeview;

b. Amendment to Lease S-37280, dated February 22, 1983;

c. Amendment to Lease S-37280, dated December 19, 1983;

d. Amendment to Lease S-37280, dated November 26, 1984;

e. Amendment to Lease S-37280, dated June 5 and 6, 1986;

f. Transfer Agreement dated December 8, 1986 ("Transfer Agreement"); and

g. Novation Agreement dated December 7, 1988 ("Novation Agreement").

"Litigation" is defined to mean the case entitled Apex Investment Firm, II, L.P., et al. v. Colorado State Board of Land Commissioners, et al., Case No. 94CV5405, District Court, in and for the City and County of Denver, State of Colorado.

"Lowry Range" shall be defined to mean the approximately 24,567.21 acres, more or less, according to U.S. Government survey, in Arapahoe County, Colorado more particularly described as follows:

Township 5 South, Range 64 West of the 6th P.M., Sections 7 through 10: all; Sections 15 through 22: all; Sections 27 through 34: all.

Township 4 South, Range 65 West of the 6th P.M., Sections 33: all; and 34: all.

Township 5 South, Range 65 West of the 6th P.M., Section 3: all; Sections 10 through 15: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 15; Sections 22 through 27: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 22; Sections 35 and 36: all; Section 34: north 2,183.19 feet.

Township 5 South, Range 66 West, of the 6th P.M., Section 36: all.

"Non-Export Water" shall be defined to mean the Water Rights other than (i) the Export Water and (ii) the water subject to the East Cherry Creek Agreement.

"Off-Site" shall be defined to mean outside the boundaries of the Lowry Range.

"Operating Expenses" shall mean all actual maintenance and operating costs incurred by Rangeview or its Service Provider in discharging Rangeview's obligations to provide Non-Export Water to Water Users as required by Section 8.1. Such Operating Expenses may include, for example, expenses for repairs to the infrastructure; salaries, wages and employee benefit expenses; fees for services, materials and supplies; rents, administrative

and general expenses; insurance expenses; fees for legal, engineering, accounting and other consulting and technical services; and taxes and other governmental charges. Such Operating Expenses shall not include expenditures which are properly capitalized under generally accepted accounting principles, depreciation or obsolescence charges or reserves therefor, reserves for any other purpose, amortization of intangibles or other bookkeeping entries of a similar nature, interest charges and charges for the payment of principal or amortization of bonded or other indebtedness, royalties, or losses from the sale, abandonment, reclassification, re-evaluation or other disposition of capitalized assets.

"Parties" shall be defined to mean the Land Board and Rangeview.

"Rangeview" shall be defined to mean Rangeview Metropolitan District, a State quasi-municipal corporation and political subdivision of the State of Colorado, acting directly as such or acting by and through the Enterprise.

"Reserved Water" shall be defined as set forth in Section 5.1(e).

"Retail Sales Price" shall be defined to mean the gross rates and charges per 1,000 gallons charged by a municipality, water district or other water provider to retail end users of the water.

"Royalty Base" shall be defined as set forth in Section 7.2(b).

"Sale of Water" or similar phrases used herein shall mean the sale of the rights as set forth in Section 5.1 and Section 6.1.

"Service Agreement" shall be defined as set forth in Section 6.4.

"Service Provider" shall be defined to mean any entity, other than Rangeview, actually delivering the Non-Export Water and related services to the Water Users as permitted by Article 9.

"Settlement Agreement" shall be defined to mean the Settlement Agreement and Mutual Release dated April 4, 1996 among the Parties and the other parties in the Litigation.

"Substitute Facilities" shall be defined as set forth in Section 8.3.

"Water Interest Ratio" shall be defined as set forth in Section 8.3.

"Water Rights" shall be defined as set forth in Section 5.1.

"Water Users" shall be defined to mean surface tenants, occupants, developers, land owners and all other water users on the Lowry Range.

ARTICLE 2
Preliminary Matters

2.1 A dispute has arisen between the Parties and others concerning the status of the Lease as evidenced in part by the claims asserted by and against various parties in the Litigation.

2.2 The Parties to this Agreement desire to: (1) amend and completely restate the rights and obligations of the Lease; (2) acknowledge and agree that the Lease as amended and completely restated by this Agreement is valid and enforceable; (3) eliminate uncertainty surrounding the Lease as amended and completely restated by this Agreement; and (4) resolve all issues between the Parties to this Agreement which are related to all issues which have been raised or could be raised in connection with the Litigation.

ARTICLE 3
Effective Date

3.1 EFFECTIVE DATE OF THIS AGREEMENT. This Agreement shall be binding on the date it is fully executed and delivered by the Parties subject only to, as a condition subsequent, entry of the final non-appealable order of the Denver District Court in the Litigation approving this Agreement and the related Settlement Agreement. The date of the final non-appealable order of the Denver District Court shall be deemed the Effective Date of this Agreement. The Parties agree to cooperate and to use their best efforts to obtain prompt entry of a final non-appealable order.

3.2 AMENDMENT. This Agreement amends, restates in its entirety, and supersedes in all respects the Lease, and from and after the Effective Date, this Agreement, including the Exhibits hereto and the Settlement Agreement, shall control and define the rights and obligations of the Parties with respect to the subject matter of this Agreement.

3.3 OBJECTIVES OF THIS AGREEMENT. The Parties acknowledge that it is in their best interests to arrange for water development on the Lowry Range to be pursued in a manner which encourages efficient and economical use of the water resources which are the subject of this Agreement and encourages surface development on the Lowry Range. Rangeview has the objective of acquiring an adequate water supply to provide water delivery to Water Users pursuant to this Agreement and, subject to the terms

of this Agreement, to apply the Export Water to a use which creates revenue and thereby provides additional royalty payments to the Land Board. In order to achieve this objective, the Parties acknowledge that Rangeview's first priority for utilization of its available revenues will be the fulfillment of its commitment to provide water service to its Water Users. The Land Board contemplates that it may lease, sell, or otherwise dispose of portions of the surface of the Lowry Range at some undetermined point in the future and anticipates that the availability and provision of water service to the Lowry Range pursuant to this Agreement may promote development on the Lowry Range.

3.4 RANGEVIEW. The Enterprise agrees that it shall cause Rangeview, acting directly and not through the Enterprise, to execute and deliver a guaranty of this Agreement in the form attached hereto as Exhibit I.

ARTICLE 4
Leased Premises

4.1 GENERAL DESCRIPTION OF WATER SUBJECT TO THIS AGREEMENT. Except as

otherwise reserved to the Land Board in Section 5.1 below, this Agreement shall encompass the use of all of the waters on and under the surface of the Lowry Range.

ARTICLE 5
Grant of Lease

5.1 GRANT. Subject to the terms, conditions and limitations set forth in this Agreement, the Land Board hereby leases to Rangeview the right and privilege during the term of this Agreement to divert and put to beneficial use all water on and under the surface of the Lowry Range, including all rights to the first use, reuse, successive use and disposition of such water, together with the right to use as much of the surface and underground portions of the Lowry Range as provided in Article 11 of this Agreement as may be reasonably required in the exercise of the rights granted by this Agreement, including, in accordance with commercially reasonable and prudent water provider practice in Colorado, the right to drill and build wells, construct buildings (except office and other such buildings not directly necessary for the extraction and transportation of water), make excavations, stockpiles, dumps, drains, roads, power lines, pipelines, and other improvements (all such activity hereinafter being referred to as "Construction"), but only as may be reasonably necessary for the development and delivery of the water pursuant to this Agreement. The foregoing items exclusive of the reservations set forth below are collectively referred to as the "Water Rights."

Reserving, however, to the Land Board:

(a) Except as are herein specifically granted, the right to exercise all rights and privileges of every type and nature which are incident to the ownership of the Lowry Range, or any part thereof, at any time, for any purpose, including, without limitation, the right to explore, prospect for and extract oil and gas and other minerals, including sand and gravel, on or under said land, in a manner not inconsistent with the full exercise by Rangeview of the rights and privileges herein granted;

(b) The right at any time to go upon those portions of the Lowry Range not exclusively utilized by Rangeview and the right at all reasonable times upon five (5) days' written notice during the term of this Agreement to go upon those portions of the Lowry Range exclusively utilized by Rangeview and every part thereof for the purpose of inspecting same, including metering, measuring and other similar devices, and, in accordance with Section 7.6, to inspect the books of accounts and records of water development and use therein, and of ascertaining whether or not Rangeview, and those entities holding under and buying from or contracting with Rangeview, are carrying out the terms, covenants and agreements of this Agreement;

(c) All interests in the Water Rights and all interests in the Lowry Range previously granted by the Land Board identified in EXHIBIT A;

(d) The Land Board's recharge rights set forth in 6.2(b); and

(e) A total of 1,135 acre feet annually of non-tributary and not non-tributary (as defined by statute) water blended proportionally from all aquifers based on water court decrees adjudicating water under the Lowry Range as such decrees may be amended from time to time ("Reserved Water"). Except for the restriction on sale set forth in Section 6.1(b), this Reserved Water shall not be subject to this Agreement and is released by Rangeview in favor of Land Board.

5.2 TERM. The term of the Lease commenced at 12:00 noon on May 1, 1982, and, as amended by this Agreement, shall expire at 12:00 noon on May 1, 2081 unless terminated earlier in accordance with the terms of this Agreement or otherwise extended.

5.3 EFFECT OF EXPIRATION OF THE AGREEMENT. Upon expiration, or earlier termination of the term of this Agreement, the right to the use of the Non-Export Water shall automatically and without further act of the Parties or anyone else revert to the Land Board. To the extent Non-Export Water is actually being delivered to provide water service to Water Users, the Land Board agrees that such water will continue to be made available to

Water Users under commercially reasonable agreements to be negotiated at the time of such expiration or termination, which agreements shall include adequate revenue for the Land Board. In the event no agreement is reached, then the terms

of such agreements shall be determined by arbitration pursuant to Section 15.16.

5.4 LAND BOARD'S LEGAL RIGHT TO WATER. The Land Board hereby warrants and represents that, except as provided in EXHIBIT A, it has all right, title and interest in the Water Rights granted to Rangeview and it has not granted such rights to any other person or entity. Rangeview agrees to pursue diligently (1) the adjudication of all of the Water Rights, and (2) the development of the Water Rights as necessary to provide water service to Water Users in a commercially reasonable time and manner and in accordance with prudent water provider practice in Colorado, without cost or legal expense to the Land Board. The Land Board shall reasonably cooperate and render assistance with respect to all permits, applications, filings and documents related to Rangeview's activity in adjudicating all of the Water Rights and shall be provided courtesy copies of such papers five (5) days before they are filed. It is further agreed by the Parties hereto that all permits, applications, filings, documents and decrees in connection with establishing such Water Rights shall bear the name of, and be made in the name of Land Board and, if necessary, Rangeview, as lessee. Legal title to the Water Rights shall be held in the name of the Land Board except to the extent reasonably necessary to include Rangeview, as lessee, in water decrees, without cost to the Land Board, and any water rights adjudicated on and under the Lowry Range shall automatically become Water Rights under this Agreement. Nothing in this Agreement shall be deemed to prohibit Rangeview from adjudicating in its sole name and for its sole benefit any other Off-Site water rights not subject to this Agreement.

Unless expressly agreed to by the Land Board in writing and in its sole discretion, the Water Rights, the water system to be constructed, and the rights-of-way on and aquifers under the Lowry Range required to deliver both Export and Non-Export Water, and any other rights granted hereunder, shall not be used for any business or other purpose except to provide water service consistent with this Agreement and the water decrees by which such Water Rights have been or may be adjudicated.

5.5 SALE OF LAND. C.R.S. 36-1-118(4) provides that the Land Board may, in its discretion, offer for sale any land leased at any time during the term of any lease as though said lease had not been executed, or it may withdraw such land from sale during the full term of the lease. The Land Board affirms that the right to develop, divert, convey and use the Water Rights and the interest in the surface of the Lowry Range conferred by Article 11 of this Agreement shall be withdrawn from sale until

this Agreement terminates in accordance with the provisions hereof.

ARTICLE 6
Right to Sell Water

6.1 RANGEVIEW'S CONVEYANCE OF EXPORT WATER.

(a) As of the Effective Date and subject only to the terms of this Agreement, Rangeview shall sell or have the right to sell the right to divert and sell outside the Lowry Range the use of up to a total gross volume of 1,165,000 acre feet of the non-tributary and not non-tributary water included in the Water Rights ("Export Water") pursuant to an agreement in the form attached hereto as EXHIBIT C (the "Initial Permitted Sale"). The purchaser of the Export Water, pursuant to EXHIBIT C, shall be referred to herein as the "Export Water Contractor." The Export Water may be withdrawn only to the extent permitted by the water decrees by which such water was adjudicated, as such decrees may be amended from time to time, and may not be withdrawn in quantities or in any other manner that would adversely affect the delivery of Non-Export Water to Water Users. Notwithstanding the expiration or early termination of this Agreement, such right to divert, sell and use the total gross volume of 1,165,000 acre feet of Export Water shall be absolute and irrevocable subject to the provisions of Section 6.6. The diversion and use of the Export Water shall be in accordance with the terms of the water decrees by which such water was adjudicated, as such decrees may be amended, from time to time and will include the right to sell all use, reuse, and successive uses of the Export Water. Upon the sale or other disposition of all or any portion of the Export Water following the Initial Permitted Sale, Rangeview shall cause to be paid and the Land Board shall receive the royalty described in Section 7.2 below. The Land Board will have no approval rights as to any sale or other disposition of the use of the Export Water subsequent to the Initial Permitted Sale, except that Rangeview shall provide to the Land Board written notice of and access to the contemplated sale documents twenty-one (21) days in advance of such sale or other disposition pursuant to Rangeview's rights as set forth in Section 12.1 of EXHIBIT C. Contracts for sales of the use of Export Water shall provide for the substitution of facilities and oversizing of pipes as provided in Sections 8.3 and 8.4 below and that the capital costs for the Off-Site delivery system and

oversizing of pipes will not be charged, directly or indirectly, to the Land Board, Rangeview, or Water Users (except to the extent such facilities are substituted for on-site service, in which case Water Users will indirectly bear costs through rates and charges and Rangeview may incur administrative and maintenance expenses with respect thereto). In addition, Rangeview shall cause such contracts to provide for the payment of royalties as otherwise provided in this Agreement.

(b) The Land Board agrees that the Reserved Water shall not be sold by the Land Board before (i) the sale or disposition of the Export Water by the Export Water Contractor subsequent to the Initial Permitted Sale or (ii) May 1, 2032, whichever is earlier.

(c) Rangeview is in the process of adjudicating certain tributary waters on the Lowry Range. To the extent Rangeview is successful in completing adjudication of such rights, and to the extent water is available pursuant to such adjudication, the Export Water Contractor shall have the right at any time during the first five (5) years following the adjudication to substitute up to 1,650 acre feet per year of non-tributary water which constitutes the Export Water as defined in this Section 6.1 for an absolute and irrevocable decree for up to 1,650 acre feet of tributary water. If the Export Water Contractor exercises the foregoing right, the Export Water Contractor shall reconvey a total gross volume of 165,000 acre feet of non-tributary water and not non-tributary water which constitutes the Export Water to the Land Board, as lessor, and Rangeview, as lessee, to become Non-Export Water subject to this Agreement and the Export Water Contractor shall enter into an agreement with Rangeview which provides that in years when less than a total of 3,300 acre feet per year of tributary water on the Lowry Range is physically available, the Export Water Contractor shall only utilize up to fifty percent (50%) of the available tributary water unless the remaining available tributary water is not being utilized by Rangeview, its Service Provider, or the Land Board, as applicable, and Rangeview, its Service Provider, or the Land Board, if applicable, agrees that it does not plan to utilize such water during the year, in which case the Export Water Contractor may utilize the available tributary water which Rangeview, its Service Provider, or the Land Board does not plan to use up to a maximum of 1,650 acre feet. In no case shall Non-Export Water be used to augment the Export Water Contractor's tributary water hereunder.

For example, if in a year there are only 2,400 acre feet of tributary water available, the Export Water Contractor could only utilize 1,200 acre feet unless Rangeview, its Service Provider, or the Land Board, if applicable, does not plan to use some portion of the remaining 1,200 acre feet, in which case the Export Water Contractor could use the unused tributary water up to a maximum of 450 acre feet for a combined total of 1,650 acre feet.

6.2 RIGHT TO ARTIFICIALLY RECHARGE.

(a) Rangeview's Right to Recharge. Rangeview, the Service Provider (but only as to the provision of water to Water Users pursuant to the Service Agreement) and the Export Water Purchaser shall have the right to artificially recharge and to

store the recharged water in the aquifers from which such Water Rights are withdrawn (but only to the extent all or some of the Water Rights have been withdrawn from the aquifers by the recharging party) and to withdraw such artificially recharged and stored water. Rangeview, the Service Provider, and the Export Water Purchaser shall also have the right, to the extent Water Rights have been withdrawn from the aquifers by the recharging party, to store additionally acquired water in reservoirs on the surface of the Lowry Range in a commercially reasonable manner consistent with prudent water provider practice in Colorado and subject to the requirements set forth herein.

(i) The amount of recharged water stored in the aquifers and on the surface in reservoirs combined cannot exceed the amount of Water Rights withdrawn by the recharging entity from the aquifers.

(ii) If Rangeview, the Service Provider, or the Export Water Purchaser desires to construct a surface reservoir, such entity must notify the other entities of such intention and give them the opportunity to participate in the project. Any such reservoir must be compatible with the existing and reasonably projected development of the surrounding land. The Land Board shall have the right to veto the construction of any surface reservoir if it reasonably determines that the reservoir would adversely impact either (i) the provision of service to Water Users, or (ii) the value of the Land Board's land within the Lowry Range, based on then known facts and reasonable projections regarding future needs of Water Users and future development of the Lowry Range. Any disputes over whether the reservoir will be compatible with the development of the surrounding land or whether the reservoir would adversely impact the

provision of service to Water Users or the value of the Land Board's land shall be resolved by arbitration pursuant to Section 15.16 of this Agreement. The burden of proof in such arbitration shall be on the entity desiring to construct the reservoir. If a reservoir is constructed, the entity or entities constructing such reservoir shall permit reasonable access to the reservoir, if requested by surrounding land owners, municipalities, parks and recreation districts or similar entities, provided that the access requested does not interfere with or render more costly the planned use and operation of the reservoir and provided that it shall not be the responsibility of Rangeview, the Service Provider, or the Export Water Purchaser to provide amenities or safety features to accommodate needs of such third persons unrelated to the water service function of the reservoir.

(iii) Subject to the provisions of subsection (ii) above:

(a) Notwithstanding Article 11, if the Export Water Purchaser plans to construct the reservoir, the Land Board shall grant to the Export Water Purchaser a perpetual right-of-way on the land for such reservoir, which does not

expire unless the reservoir is abandoned in accordance with Section 14.2. This right-of-way shall be granted in exchange for payment of the then fair market value for the land.

(b) If Rangeview or the Service Provider requests a right-of-way for a reservoir, Rangeview shall be granted the right-of-way, and Rangeview shall grant a license to the Service Provider, if necessary, and the Land Board shall receive fees in accordance with Article 11.

(c) If the reservoir is planned to be jointly constructed by Rangeview and/or its Service Provider and the Export Water Purchaser, then the fees and rights-of-way granted will be based on the proportionate part of the reservoir to be used by Rangeview or its Service Provider on the one hand, and the Export Water Purchaser on the other.

For example, if Rangeview and the Export Water Purchaser agree to construct a reservoir which will be used to store ten thousand (10,000) acre feet of water per year and which requires a one hundred (100) acre right-of-way, and each party intends to utilize one-half of the reservoir, then Rangeview will pay to the Land Board the fee set forth in Section 11.2 for fifty (50) acres and the Export Water Purchaser will pay fair market value for the remaining fifty (50) acres. Rangeview will receive a right-of-way in the one hundred (100) acres in the form of EXHIBIT F, and, if necessary, will license such right-of-way to the Service Provider pursuant to a license in the form of EXHIBIT G. The Export Water Purchaser shall receive a perpetual right-of-way in the one hundred (100) acres. Each entity would thereafter have access to the entire reservoir but would only have the usage rights to their undivided one-half of the reservoir.

(iv) Any artificial recharge must be done in accordance with all applicable laws, rules, and regulations in effect at the time of such artificial recharge, and notwithstanding such compliance, shall not interfere with or render more burdensome or costly delivery of the Non-Export Water to Water Users.

(v) Rangeview, the Service Provider, the Export Water Contractor, and the Export Water Purchaser (but excluding the end user) shall be jointly and severally liable for all damages, including without limitation, environmental or water quality damages, if any, incurred by the Land Board or the Water Users arising out of the artificial recharge, storage, or withdrawal of such artificially recharged water.

(vi) Rangeview shall cause all contracts for the sale or other disposition of the Export Water to provide that the Land Board shall be paid the royalty required by Section 7.4(a) at the time the recharged water is withdrawn. The royalty shall be

payable by the entity withdrawing such water and the Land Board shall have the right to enforce such payment requirement, including the rights as provided in Section 6.6. If there is a dispute as to the royalty attributable to such recharged water when it is withdrawn, the royalty shall be resolved by arbitration pursuant to Section 15.16 of this Agreement.

(vii) The right to recharge Export Water is not alienable from the Export Water and must be sold in conjunction therewith. Subject to Section 15.19, the right to recharge sold with the Export Water shall be deemed abandoned when the Export Water Purchaser withdraws the entire portion of the Export Water purchased plus the entire amount of water recharged by the Export Water Purchaser and such purchaser has failed to recharge any portion of the aquifers for a period of ten (10) years. In the event of a dispute in the determination of the abandonment of the right to recharge, the matter shall be

determined by arbitration pursuant to Section 15.16 of this Agreement.

(viii) Rangeview shall cause the Service Provider and the Export Water Purchaser to comply with this Section 6.2(a) in conducting any recharge activities permitted above.

(b) Land Board's Right to Recharge. The Land Board shall have the right to artificially recharge, store and withdraw water in the aquifers beneath the Lowry Range in accordance with all applicable laws, rules and regulations in effect at the time of such artificial recharge; provided, however, that notwithstanding such compliance, the Land Board shall not interfere with or render more burdensome or costly the storage of or delivery of or recharge of water by Rangeview, the Service Provider, or the Export Water Purchaser and shall not interfere with or render more burdensome or costly the delivery of Export Water by the Export Water Contractor if the Export Water is sold by the Export Water Contractor on a Delivered Basis. Further, the Land Board shall be liable for damages, including without limitation, environmental or water quality damages, if any, incurred by Rangeview, the Service Provider, the Export Water Contractor, the Export Water Purchaser or the Water Users arising out of such artificial recharge, storage or withdrawal by the Land Board.

6.3 WATER AVAILABLE TO EXPORT. The Non-Export Water (and water recharged other than with respect to Export Water withdrawn) shall not be used, transferred, sold, or otherwise disposed of Off-Site without the express written consent of the Land Board. Disposal of untreated effluent, sewage, or sewerage Off-Site shall be permitted only with the express written consent of the Land Board, which consent shall not be unreasonably withheld. Rangeview shall pay to the Land Board forty-five percent (45%) of Gross Revenues, if any, for the disposal of untreated effluent, sewage, or sewerage Off-Site, within thirty (30) days after receipt. In the event that Rangeview sells or

disposes of treated effluent off-site (subject to the consent required in the first sentence of this Section 6.3), then Rangeview shall pay to the Land Board forty-five percent (45%) of all Gross Revenues received after deduction of all costs of treatment. If there is a dispute as to such payment, the matter shall be resolved by arbitration pursuant to Section 15.16 of this Agreement. The Land Board shall be provided twenty-one (21) days advance written notice and access to contemplated contracts for the disposal of effluent, sewage, and sewerage Off-Site.

6.4 SALE OF USE OF WATER ON THE LOWRY RANGE. Subject to the provisions of this Agreement, Rangeview shall provide water service to all current and future Water Users needing water service on the Lowry Range and shall have the right to divert and use all Non-Export Water for such purpose. Reuse and successive use of Non-Export Water, if any, shall be done in a commercially reasonable manner consistent with prudent water provider practice in Colorado. At its option, and subject to the provisions of Article 9 below, Rangeview may enter into a Service Agreement contract to provide Non-Export Water to Water Users substantially in the form attached hereto as EXHIBIT B (the "Service Agreement"). To the extent that Non-Export Water is insufficient to provide water service to Water Users, Rangeview shall be obligated to locate additional sources of water for Water Users. Rangeview shall either acquire such additional water and provide service to Water Users at the rates and charges set forth in Section 8.2 or it shall notify the Land Board that it requires an increase in the rates and charges to cover the cost of acquiring the additional water, in which case the Land Board shall have the option of (i) permitting Rangeview to charge such increased rates or (ii) serving any Water Users requesting service after the Non-Export Water is committed. Rangeview agrees that if it acquires such additional water, it shall, consistent with prudent water provider practices in Colorado, use such water to provide water service to Water Users without additional cost to the Land Board. Any additional water shall not be subject to the terms of this Agreement except (i) to the extent that such additional water is stored in aquifers beneath the surface of the Lowry Range or in reservoirs on the surface of the Lowry Range, in which case, such water shall thereafter be subject to the royalty set forth in Section 7.4(b) and (ii) to the extent such additional water may remain subject to the rates and charges in Section 8.3 as described above. Such additional water shall not be used to determine when Section 7.3(b) of this Agreement becomes applicable and Section 7.3(b) shall not be applicable to such additional water unless Rangeview utilizes additional water to provide water service to Water Users when there is still sufficient Non-Export Water available on a commercially reasonable basis and in compliance with prudent water provider practice in Colorado to provide such service. If Rangeview does not acquire additional water for Water Users, because the Land Board elects to serve Water Users requesting service after the Non-Export Water is committed, then Rangeview shall continue to

provide Non-Export Water to Water-Users who are issued taps prior to the time when the available Non-Export Water was committed pursuant to such taps. Rangeview shall not issue taps based on unused cumulative rights under the decrees for the Non-Export Water. The phrase "unused cumulative rights under the decrees" means the amount of water that could otherwise have been legally withdrawn pursuant to the Statewide Non-Tributary Ground Water Rules, 2 C.C.R. 402-7, Rule 8A., over and above the allowed average annual amount of withdrawal permitted under the decrees. The Land Board may utilize the Reserved Water or any other water sources it may have or acquire, to service subsequent Water Users. The Land Board shall have the right to jointly use and expand the facilities constructed by Rangeview or its Service Provider to provide Non-Export Water to Water Users to provide service to subsequent Water Users to the same extent Rangeview would have used and expanded such facilities consistent with prudent water provider practices in Colorado if it had acquired additional water to service such Water Users.

6.5 QUALITY OF WATER. Unless authorized in writing by the Land Board, the use of Water Rights may only be sold or otherwise disposed of as water blended proportionally from all aquifers based on water court decrees adjudicating the Water Rights, except for the water committed pursuant to the East Cherry Creek Agreement and the sale or disposition of any tributary water (including the tributary water described as set forth in Section 6.1(c)).

6.6 TERMINATION OF EXPORT WATER. In the event the Export Water Contractor or the Export Water Purchaser fails to pay the royalties required by this Agreement within ten (10) business days after the applicable due date, or takes or fails to take action which would cause material harm to the Water Rights or the aquifers, or the surface of the Lowry Range then owned by the Land Board and such action or failure is not cured within thirty (30) days after written notice has been given by the Land Board or Rangeview specifically setting forth the nature of the problem, or if more than thirty (30) days is reasonably required to cure such matter complained of, if the Export Water Contractor or Export Water Purchaser, as applicable, shall fail to commence to correct the same within said thirty (30) day period and shall thereafter fail to prosecute the same to completion with reasonable diligence, or commits a fraud in the performance (as opposed to the inducement) of this Agreement, as may be determined in a final non-appealable order of a court of competent jurisdiction, the Land Board or Rangeview may elect to terminate the rights to the portion of the Export Water which has not been conveyed or is not otherwise subject to a good faith, binding agreement to be conveyed to an Export Water Purchaser and pursue such other remedies as may be provided by law. Rangeview, at its option, without prejudice to any other remedies it may have, may cure any of the foregoing defaults in order to protect its rights under this Agreement without waiting for the thirty

(30) day period to run and seek reimbursement from the Export Water Contractor or Export Water Purchaser, as applicable, for any costs and damages associated therewith.

ARTICLE 7
Rent and Royalty Payments to Land Board

7.1 ANNUAL RENT. Rangeview shall pay annual rent ("Annual Rent") in the amount of Five Thousand Dollars ($5,000.00) to the Land Board on or before May 1 of each year until this Agreement expires or otherwise terminates. The Annual Rent shall be increased every five (5) years proportionally to the five (5) year increase, in the Index. In no case shall the annual rent be reduced.

7.2 ROYALTY FOR EXPORT WATER.

(a) Royalty Rates for Public Versus Private Use. A sum equal to ten percent (10%) of the Royalty Base shall be paid to the Land Board as a royalty in the case of a sale or other disposition of Export Water to a Title 32 water district or other similar municipal or public entity, and a sum equal to twelve percent (12%) of the Royalty Base shall be paid to the Land Board as a royalty in the case of a sale or other disposition of Export Water to all others. These royalty rates shall be referred to as the "Initial Export Royalty Rates."

(b) Application of Initial Royalty Rates. In addition to the Annual Rent, Rangeview shall pay or cause the Export Water Contractor to pay the Initial Export Royalty Rates (subject to adjustment as provided in Section 7.2(c)) on the sale or other disposition of the Export Water. The royalty paid

to the Land Board upon a sale or other disposition of Export Water shall be based on the greater of the following values ("Royalty Base"): (1) the Export Water Contractor's Gross Revenues for the specific interest granted; or (2) the value of the specific interest granted, as determined in accordance with Section 7.2(d). The Parties intend that the Royalty Base shall include, without limitation, all Gross Revenues relative to the sale or other disposition of any or all Export Water rights, including without limitation, option rights, the right to first use, reuse, successive use, or any other disposition of the Export Water.

(c) Adjustment of Initial Export Royalty Rate.

(1) If the Export Water is sold or disposed of by the Export Water Contractor on an Entitlement Basis to a public entity for an amount in excess of Forty-Five Million Dollars ($45,000,000) in Gross Revenues, the Initial Export Royalty Rate shall be increased for Gross Revenues received in excess of $45,000,000 as follows:

Gross Revenue	Royalty Rate
0 - $45,000,000	10%
$45,000,000 - $60,000,000	20%
$60,000,000 - $75,000,000	30%
$75,000,000 - $90,000,000	40%
Over $90,000,000	50%

As an example, if the Export Water Contractor receives One Hundred Million Dollars ($100,000,000) in Gross Revenues from sales of the Export Water on an Entitlement Basis to a public entity, the Land Board will receive a royalty as follows:

Gross Revenue	Royalty
the first $45,000,000	$4,500,000
the next $15,000,000	$3,000,000
the next $15,000,000	$4,500,000
the next $15,000,000	$6,000,000
the next $10,000,000	$5,000,000

(2) If the Export Water is sold by or disposed of by the Export Water Contractor on an Entitlement Basis for a private use for an amount in excess of Forty-Five Million Dollars ($45,000,000), the Initial Royalty Rate shall be increased for the Export Water Contractor's Gross Revenues in excess of Forty-Five Million Dollars ($45,000,000) as follows:

Gross Revenue	Royalty Rate
0 - $45,000,000	12%
$45,000,000 - $60,000,000	24%
$60,000,000 - $75,000,000	36%
$75,000,000 - $90,000,000	48%
Over $90,000,000	50%

(3) The foregoing adjustments to the Initial Export Royalty Rate shall also apply to sales or other dispositions on other than an Entitlement Basis, i.e., where the Export Water Contractor bears all or part of the costs of withdrawal, treatment or delivery. In such cases, there shall be deducted from Gross Revenues those costs (including a reasonable overhead allocation) which are incurred as a direct or indirect result of the incremental activity associated with the withdrawal, treatment and delivery of the Export Water involved on an other than Entitlement Basis. In such cases, the resulting number (Gross Revenues less such incremental costs) shall be used as the "Gross Revenues" number in the formulae set forth in subparagraphs 7.2(c)(1) and (2).

(d) Determination of Royalty Base.

(1) If interests in the Export Water are sold or otherwise disposed of by the Export Water Contractor on an Entitlement Basis, the value of the Export Water shall be conclusively deemed to equal the Export Water Contractor's Gross Revenues attributable to each acre foot of water plus Five Hundred Dollars ($500.00) per acre foot and the $500 shall be added to Gross Revenues for purposes of calculating the Royalty Base. The Five Hundred Dollar ($500.00) figure shall be increased or decreased every five (5) years

proportionally to the five (5) year increase or decrease in the Index.

(2) If the Export Water is sold or otherwise disposed of with the Export Water Contractor bearing the cost of withdrawal, treatment and delivery to a purchaser at least to the boundary of the Lowry Range (a "Delivered Basis"), then the Royalty Base shall be as set forth in Section 7.2(b)(1).

(3) If the Export Water is sold other than on a Delivered Basis or an Entitlement Basis, then each contract for the sale or other disposition of a specific interest in the Export Water shall be delivered to the Land Board for its review together with a written statement setting forth the Royalty Base believed to apply to each such transaction (the "Proposed Royalty Base"). The Land Board shall have forty-five (45) days to either approve the Proposed Royalty Base or make its own determination of the Royalty Base. If the Land Board does not make such determination within forty-five (45) days after receipt of the Proposed Royalty Base, the Proposed Royalty Base shall conclusively be deemed to have been accepted. In the event of a dispute in the determination of the Royalty Base under this Section 7.2(d)(3), the matter shall be determined by arbitration pursuant to Section 15.16 of this Agreement. The arbitrator shall be required to determine a Royalty Base for a sale or other disposition under this Section 7.2(d)(3) which results in a royalty no higher than that for a Delivered Basis sale and no less than that for an Entitlement Basis sale.

(4) Except for the sale or disposition of Export Water on a Delivered Basis, Rangeview shall cause each contract for the sale or other disposition of Export Water by the Export Water Contractor to include a requirement that the first Export Water Purchaser pay as additional consideration ("Additional Consideration") at least five percent (5%) of such Export Water Purchaser's Retail Sales Price at the time the Export Water is delivered to a third person (regardless of whether such person is a retail end user). Rangeview shall cause the Export Water Contractor to pay directly to the Land Board an amount equal to the greater of (i) five percent (5%) of such Export Water Purchaser's Retail Sales Price or (ii) fifty percent (50%) of such Additional Consideration received by the Export Water Contractor.

As an example, if the Export Water Contractor sells the Export Water on an Entitlement Basis for Two Thousand Dollars ($2,000.00) per acre/foot, plus twelve percent (12%) of the Export Water Purchaser's Retail Sales Price, the Land Board royalty shall be calculated as follows: the Land Board shall receive Two Hundred Fifty Dollars ($250.00) per acre/foot (ten percent (10%) of the sum of Two Thousand Dollars ($2,000.00) plus Five Hundred Dollars ($500.00) for each acre foot) plus fifty percent (50%) of the twelve percent (12%) of the Retail Sales Price when the Export Water is delivered to a third person. If the Retail Sales Price to retail end users totals $2.00 per 1,000 gallons, then the Land Board shall receive $.12 for each 1,000 gallons delivered to a third person even if such third person uses such water for an augmentation plan or other non-retail use.

(e) Subsequent to the anniversary date of this Agreement in the year 2081, any ongoing Gross Revenues from the sale of Export Water shall belong to and be paid to the Land Board.

7.3 ROYALTIES FOR ON-SITE USE.

(a) Initial Royalty. For sales or other dispositions of Non-Export Water for use on the Lowry Range, Rangeview will pay to the Land Board a royalty of twelve percent (12%) of the Gross Revenues related to the sale or other disposition of the Non-Export Water (including any reuse or successive use) to Water Users.

(b) Royalty at Build-Out. At such time as metered production in any calendar year of Non-Export Water reaches 13,000 acre feet (including any re-use of water), or, alternatively, at such time as a total of 10,000 surface acres on the Lowry Range has been (i) rezoned to a use other than agricultural, (ii) finally platted, and (iii) water tap agreements have been entered into with respect to all improvements to be constructed on such acreage, then the Land Board may elect to receive, at its option, in lieu of the royalty provided in Section 7.3(a), an amount equal to fifty percent (50%) of the collective net profits derived by Rangeview and the Service Provider from the sale of Non-Export Water to Water Users. Net Profits shall be defined as the Gross Revenues received from Water Users less (i) the currently amortized portion of applicable capital costs (assuming for purposes of this calculation that such costs are to be amortized over the estimated useful lives of the assets involved) incurred with respect to the Non-Export Water delivery system; and (ii) all Operating Expenses whether incurred by Rangeview or its Service Provider.

7.4 RECHARGE ROYALTY.

(a) Export Water. If additional water acquired by the Export Water Purchaser is stored pursuant to Section 6.2(a) in surface reservoirs or in aquifers beneath the surface of the Lowry Range, Rangeview shall pay or cause to be paid to the Land Board a royalty equal to ten percent (10%) (for sales or dispositions to public entities) or twelve percent (12%) (for sales or dispositions to all others) of the Export Water Purchaser's Retail Sales Price at the time of the sale or other disposition of such stored or recharged water (regardless of whether such sale or other disposition is to a retail purchaser).

(b) Non-Export Water. If additional water acquired by Rangeview or its Service Provider is stored pursuant to Section 6.2(a) in surface reservoirs or in aquifers beneath the surface of the Lowry Range for sale or other disposition to Water Users, Rangeview shall pay or cause to be paid to the Land Board a royalty equal to ten percent (10%) (for sales or dispositions to public entities) or twelve percent (12%) (for sales or dispositions to all others) of the Retail Sales Price received by Rangeview or its Service Provider from the sale or other disposition of such stored or recharged water to Water Users.

7.5 PAYMENT OF ROYALTY. Payment of any royalty payable pursuant to this Agreement shall be deemed earned in proportionate part as Gross Revenues derived from the subject transaction are received. In the case of an installment sale, the royalty shall be deemed earned upon receipt of each installment payment. The royalty on Export Water sold by the Export Water Contractor shall be deemed earned as actual payments are made by the purchaser of the Export Water or when the Export Water is delivered Off-Site whichever shall first occur. Royalties earned in any calendar year quarter shall be paid to the Land Board within thirty (30) days after the end of the quarter in which earned. Unpaid royalties shall accrue interest at the rate of two percent (2%) per month from the date due.

7.6 REPORTING.

(a) Rangeview shall report to the Land Board the quantity of Water Rights (including any recharged or stored water pursuant to Section 6.2(a)) delivered, the exact amount of Gross Revenues or, if applicable, Retail Sales Price relating to the sale or other disposition of Water Rights, and the entity to whom the Water Rights were delivered. The report shall be due within thirty (30) days after the end of each calendar year, until such time as production of Export and/or Non-Export Water reaches 500 acre feet in a calendar year, and thereafter on or before the thirtieth (30th) day following the end of each calendar quarter during the term of this Agreement.

(b) Rangeview shall, or shall cause its Service Provider and/or the Export Water Contractor to, prepare and keep full, complete, and proper books, records and accounts of all Water Rights (including any recharged or stored water pursuant to Section 6.2(a)) sales or dispositions and shall document such transactions as may be required by law. Said books, records, and accounts of Rangeview, its Service Provider, and/or the Export Water Contractor shall be open at all reasonable times, upon ten (10) days' prior written notice, to the inspection of the Land Board and its representatives who may, at the Land Board's expense, copy or extract all or a portion of said books, records, and accounts for a period of up to five (5) years after the date such books, records and accounts are made. The Land Board's right to inspect shall not prejudice the Land Board's right to collect payments due pursuant to this Agreement. The Land Board may, upon no less than fourteen (14) days' prior written notice to Rangeview, its Service Provider, and/or the Export Water Contractor, cause a partial or complete audit of the entire records and operations of Rangeview, its Service Provider, and/or the Export Water Contractor for a five (5) year period preceding the date of the audit relating to the Lowry Range and water use pursuant to this Agreement to be made at the Land Board's expense by an auditor selected by the Land Board. Within fourteen (14) days following the Land Board's notice, Rangeview, its Service Provider, and/or the Export Water Contractor shall make available to the Land Board's auditor the books and records the auditor reasonably deems necessary or desirable for the purpose of making the audit. Any deficiency in the payment of royalties determined upon such inspection or audit shall be immediately due and payable by Rangeview, and by the inspected or audited party if other than Rangeview, together with interest thereon at the rate of two percent (2%) per month from the date or dates such amounts should have been paid. If such deficiency is in excess of two percent (2%) of the royalty previously paid, then Rangeview shall pay or cause the audited party if other than Rangeview to pay to the Land Board the actual cost of the audit at the time the deficiency is paid.

ARTICLE 8

8.1 RANGEVIEW SHALL SERVE. Subject to the requirement that customers pay any appropriate fees and charges and comply with reasonable policies, rules and regulations which may govern the activities of Rangeview acting in its capacity as the provider of water service to the Lowry Range, Rangeview shall, consistent with the terms of this Agreement, and consistent with the obligations of the Service Provider as set forth in Article 9 below, provide water service during the term of this Agreement to all Water Users. All such service, whether actually provided by Rangeview, or some other entity as may be approved by the Land

Board, shall remain the primary obligation and responsibility of Rangeview, and shall be provided in a commercially reasonable time and manner consistent with prudent water service practice in Colorado.

8.2 WATER FEES AND RATES. Tap fees, usage charges, and service charges to Water Users on the Lowry Range for Non-Export Water shall not exceed the average of those similar charges then imposed by the Town of Castle Rock, East Cherry Creek Valley Water and Sanitation District, and Parker Water and Sanitation District, or their respective successors.

8.3 SUBSTITUTION OF FACILITIES. All contracts for the sale of Export Water shall allow Rangeview or the Service Provider, or the Land Board (upon the expiration or termination of this Agreement), as applicable, at its option, to utilize a portion (equal to the ratio of Export Water to Non-Export Water based on the acre feet decreed in the now existing water court decrees, said ratio being hereinafter referred to as the "Water Interest Ratio") of the capacity of the ground water wells which are used to produce the Export Water, under the following conditions:

(a) Rangeview, the Service Provider or the Land Board, as applicable, must provide substitute well capacity (the "Substitute Facilities") of equivalent quantity and, to the extent practicable, water quality as the well capacity utilized by the Export Water Purchaser under this Section 8.3.

(b) Subject to further substitution, the Substitute Facilities will be dedicated to the benefit of the Export Water user. Title to the Substitute Facilities shall be held in the same manner as title to the facilities which they replace.

(c) The construction and operation of the Substitute Facilities are intended to enable Rangeview, the Service Provider or the Land Board, as applicable, to incrementally expand the delivery system for the Export Water to provide service to those areas of the Lowry Range on which the Export Water delivery system has already been developed.

(d) The intent of this Section 8.3 is to allow Rangeview, the Service Provider or the Land Board, as applicable, the use of that portion of the Export Water delivery system, utilizing the excess capacity as discussed in Section 8.4, to provide water service to the Lowry Range. The further intent of this Section 8.3 is to ensure that facilities initially constructed to serve Export Water will, as necessary, be available for service to the Lowry Range if Substitute Facilities are constructed and dedicated to the Export Water user as outlined in Sections 8.3(a) and (b). The Export Water user will have the same opportunity to substitute facilities from the Non-Export Water delivery system for the Export Water delivery system so that the well field is developed in a manner reasonably

consistent with the master plan attached hereto as EXHIBIT D. The well field and Export Water and Non-Export Water delivery systems, when fully completed, shall have been developed in a manner such that each of Rangeview, the Service Provider, or the Land Board, as applicable, on the one hand, and the Export Water Purchaser(s), on the other, shall bear the economic burden of developing their proportionate part of the total infrastructure based on the ratio of Water Rights used on the Lowry Range and outside the Lowry Range.

(e) In the event a dispute arises concerning substitution of facilities pursuant to this Section, the dispute shall be resolved by arbitration pursuant to Section 15.16 of this Agreement.

8.4 RIGHT TO USE TRANSMISSION LINES; INFRASTRUCTURE. All contracts for the sale of Export Water will provide for construction of excess capacity in

Export Water transmission lines only within the Lowry Range, so as to accommodate the transmission of water for on-site use within that portion of the Lowry Range which may be served by those lines. The Service Provider, Rangeview, or the Land Board, as applicable, shall have access to and the right to use a portion of the capacity of any and all Export Water transmission lines on the premises to the extent set forth in EXHIBIT E attached hereto. The well field and delivery system built for delivery of Export Water must be built in a commercially reasonable manner using accepted engineering practices considering the requirements of Section 8.3 and 8.4 related to the development of infrastructure for water service on the Lowry Range. The costs of constructing (1) infrastructure to deliver Export Water; and (2) the excess pipeline capacity required by this Section will not be paid, directly or indirectly, by Rangeview, the Land Board, or Water Users (except to the extent such facilities are substituted for on-site service, in which case Water Users will indirectly bear costs through rates and charges and Rangeview may incur administrative and maintenance expenses with respect thereto). Ownership of the excess capacity needed for on-site use will be transferred to Rangeview, the Service Provider, or the Land Board, as applicable, at such time as such capacity is utilized, under agreements which provide for the payment by Rangeview, the Service Provider, or the Land Board, as applicable, of a proportionate share of operation, maintenance and replacement costs.

8.5 TITLE TO EQUIPMENT AND IMPROVEMENTS. Rangeview acknowledges and shall cause its Service Provider to acknowledge that equipment and improvements placed on the Lowry Range are subject to the provisions of this Agreement. Rangeview shall pay or cause its Service Provider to pay all taxes, fees, assessments or other charges, if any, which may be assessed upon or become due with respect to, the equipment and improvements during the term of this Agreement. On the Effective Date, this Agreement

shall be recorded with the Clerk and Recorder for Arapahoe County.

8.6 FUTURE LEASES. The Parties acknowledge that the Lowry Range is tax exempt as long as it is owned by the Land Board or another tax exempt entity and that the operation of Rangeview is based upon a revenue and not a tax base. The provisions of any leases or contracts for exchanges, sales or other dispositions pertaining to any interest in the surface of the Lowry Range shall not restrict the ability of Rangeview to sell water to, and receive revenue from, Water Users. Unless expressly authorized in writing by the Land Board or unless otherwise required by law, Rangeview will not impose taxes, assessments or other charges of any kind on Water Users in connection with the provision of, or cost to deliver, Non-Export Water to such Water Users except as contemplated by Section 8.2; provided that Rangeview may assess amounts it is required to pay in lieu of taxes pursuant to Sec. 36 1-120.5(5), 15 C.R.S. (1990 Rplc.).

8.7 RANGEVIEW DISTRICT BOUNDARIES. Subject to complying with reasonable policies, rules and regulations which may govern the activities of Rangeview, and to the extent permitted by law, upon petition for inclusion by a landowner within the Lowry Range qualified under Title 32 or other appropriate action thereafter, Rangeview shall cooperate and, with due diligence proceed to take action pursuant to law, to include such area as may be designated by such petition or other action within Rangeview's district boundaries.

8.8 DEVELOPMENT OF LOWRY RANGE. Rangeview shall have no obligation to promote development of the Lowry Range, other than its obligation under this Agreement to provide water service and associated infrastructure as a prudent water provider to meet all reasonable Water User demands, if and when a demand may arise. The nature, timing, financing, and approval of development of any land uses shall be the sole responsibility of the Land Board. The Land Board makes no representation as to if, when, and how the land development, if any, on the Lowry Range will occur, or as to the density of any such development.

8.9 RESERVES. Rangeview shall establish and maintain a maintenance and operating reserve for providing Non-Export Water to Water Users in accordance with Section 8.1. The amount of such reserve shall be at least equal to thirty-three and one-third per cent (33-1/3%) of the Operating Expenses budgeted by Rangeview and, if applicable, its Service Provider, for the then current calendar year. In establishing such reserve initially and in increasing the amount of such reserve as a result of an increase in budgeted Operating Expenses or an expenditure which diminishes the reserve below the required amount, Rangeview shall allocate any available funds not budgeted to other proper and necessary functions of Rangeview toward building such reserve. Such reserve funds shall be continuously maintained and may be

utilized by Rangeview solely for paying lawful obligations relating to the provision of Non-Export Water to Water Users as required by Section 8.1.

ARTICLE 9
Service Provider Contract

9.1 SERVICE PROVIDER FOR RANGEVIEW. As of the Effective Date, at its option Rangeview may enter into a contract pursuant to which a Service Provider will provide the service of delivering Non-Export Water to the current and future Water Users pursuant to and consistent with the terms of this Agreement. Rangeview shall not enter into any Service Provider contract except as contemplated by the Settlement Agreement without the express written consent of the Land Board. All Service Provider contracts shall be in the form of EXHIBIT B only with such changes as may be approved in writing by the Land Board. If Rangeview chooses to contract with a Service Provider to provide Non-Export Water services on the Lowry Range, Rangeview shall cause such Service Provider to comply with all obligations of Rangeview under this Agreement relating to Non-Export Water services on the Lowry Range. Rangeview agrees (and will cause any other Service Provider to agree) that:

(a) The Service Provider contract cannot be assigned or transferred without the express written consent of the Land Board, which consent may be withheld by the Land Board in its sole discretion. The Service Provider contract cannot be amended without the express written consent of the Land Board, which consent shall not be unreasonably withheld.

(b) Any breach by the Service Provider of its obligations under its Service Provider contract with Rangeview shall constitute a breach of this Agreement by Rangeview subject to Rangeview's right to cure such breach or default.

(c) Ten (10) days prior to the execution of any construction or financing contracts by Rangeview or the Service Provider in excess of Five Hundred Thousand Dollars ($500,000) related to the provision of Non-Export Water Service to Water Users (including contracts for the disposal of effluent, sewage or sewerage as permitted under Section 6.3 of this Agreement), Rangeview shall provide or cause the Service Provider to provide the Land Board with courtesy copies of such contracts (drafts being acceptable if finals are not yet available).

(d) Water service on the Lowry Range shall be provided as needed in a commercially reasonable time and manner consistent with prudent water service practice in Colorado if and when development of the surface of the Lowry Range may occur.

(e) If there is an approved Service Provider, all financing for infrastructure for delivery of Water Rights and all costs of operation, maintenance, debt service and repair to provide water service to Water Users will be provided without cost to Rangeview, the Land Board or any Water User on the Lowry Range, except to the extent paid for with the water fees and rates described in Section 8.2, and Rangeview shall not issue bonds to finance such infrastructure or service.

(f) Re-use and successive use of Non-Export Water, if any, shall be done in a commercially reasonable manner consistent with prudent water provider practice in Colorado.

(g) Except for the disposal of effluent, sewage or sewerage Off-Site as provided in Section 6.3 of the Agreement, none of the Non-Export Water, including all re-use and successive uses of such water, shall be used, sold, transferred, or otherwise disposed of outside the Lowry Range without the express written consent of the Land Board.

(h) If the Service Provider decides not to provide or not to continue providing service to Water Users on the Lowry Range during the term of this Agreement, then Rangeview shall require the Service Provider to give one (1) year's prior written notice to Rangeview which written notice shall be transmitted by Rangeview to the Land Board. During such one-year period, the Service Provider shall continue to provide service in accordance with the terms of the Service Agreement, unless Land Board and Rangeview require the Service Provider to discontinue providing services prior to the expiration of such one-year period.

(i) Rangeview and its Service Provider shall, at all times, act in a commercially reasonable manner consistent with prudent water provider practice in Colorado.

(j) If and to the extent at any time monies are not available to Rangeview to fund the reserve which Rangeview is required to maintain pursuant to Section 8.9 or if monies in such reserve are withdrawn such that the amount of the reserve drops below the amount which Rangeview is required to maintain

and such reserve cannot reasonably be expected to be reestablished from anticipated income to Rangeview within one year, then Rangeview shall promptly notify the Service Provider of such fact and the Service Provider shall within thirty (30) days deliver funds to Rangeview sufficient to replenish the reserve fund to its required level. Notwithstanding the fact that the reserve can reasonably be expected to be reestablished within one year, the Service Provider shall be required to deliver funds to Rangeview sufficient to replenish the reserve fund to its required level at the time the Service Provider discontinues service.

ARTICLE 10
East Cherry Creek Valley
Water and Sanitation District

10.1 TERMS AND REVENUE. The terms of the East Cherry Creek Agreement are not altered or affected by this Agreement, nor is its duration extended. All revenue paid by ECCV pursuant to the East Cherry Creek Agreement subsequent to the Effective Date of this Agreement shall be paid as follows: fifty percent (50%) to be paid by Rangeview directly to the Land Board (unless ECCV agrees to pay such fifty percent (50%) directly to the Land Board) and fifty percent (50%) to be paid by ECCV directly to Rangeview. Rangeview further agrees that within ten (10) days following the Effective Date, Rangeview shall pay the Land Board ten percent (10%) of all revenues paid by ECCV for January and February 1995 and fifty percent (50%) of all revenues paid by ECCV to Rangeview for the period from March 1, 1995 through the Effective Date. No additional royalty with respect to the revenue derived from the East Cherry Creek Agreement shall be payable to the Land Board.

10.2 TITLE REVERSION. Upon the expiration or termination of the East Cherry Creek Agreement, for whatever reason, all interests in the water, infrastructure, and leased premises related thereto, to the extent provided for in the East Cherry Creek Agreement, shall automatically and without further act of the Parties or anyone else revert to the Land Board free and clear of this Agreement. Failure of Rangeview to contest the expiration or termination of the East Cherry Creek Agreement, which the Land Board contends expires in 2032, shall not be a default under this Agreement. The Land Board agrees not to take any action inconsistent with the Land Board's rights, duties, and obligations of this Agreement which would cause Rangeview to be in default or otherwise result in liability to Rangeview under the East Cherry Creek Agreement. Nothing in the preceding sentence shall prevent the Land Board or Rangeview from taking any actions they are permitted to take by law with respect to ECCV.

ARTICLE 11
Rights-of-Way

11.1 MASTER PLAN. The Parties agree to a master plan of rights-of-way, which plan is attached to this Agreement as EXHIBIT D. To the extent not already granted, the rights-of-way described on EXHIBIT D shall be granted by Land Board to Rangeview within sixty (60) days of Rangeview's complete application with Land Board for specific rights-of-way, provided that the requested rights-of-way are necessary for construction of facilities within a reasonable time after the rights-of-way are to be granted. The grant shall be made in accordance with the form attached as EXHIBIT F, which form may be amended to

comply with applicable statutes, regulations and Land Board policy directives from time to time. Said master plan may be amended by Land Board for the convenience of the Parties, provided that any such amendment shall not materially adversely affect the rights and privileges of any Party. The total acres of rights-of-way shall not be reduced and the Land Board may relocate rights-of-way, whether planned or in use, for the commercially reasonable development of the Lowry Range. If the Land Board relocates rights-of-way which are in use by Rangeview, its Service Provider, or the Export Water Purchaser (or which any such entity has expended funds to develop for use), then the Land Board must pay the affected entities' costs associated with relocating such rights-of-way.

11.2 FEE FOR RIGHT-OF-WAY. Rangeview shall pay Land Board an amount equal to Fifty Dollars ($50.00) per acre of the surface land utilized at the time of granting a right-of-way, which, commencing with the Effective Date of this Agreement, shall be increased every five (5) years proportionally to the

five (5) year increase in the Index. In no case shall the rights-of-way fee be reduced. Land Board shall include a description of the master plan of rights-of-way in subsequent leases, sales or other dispositions pertaining to the Lowry Range and shall, subject to the amendment provisions set forth in Section 11.1, be bound by such master plan in all subsequent leases, sales or other dispositions.

11.3 LICENSE TO SERVICE PROVIDER. To the extent necessary to implement the intent of Article 11, Rangeview may grant to its Service Provider and/or the Export Water Purchaser a license to use the rights-of-way granted by the Land Board to Rangeview for the purposes contemplated by this Agreement. Such licenses shall be in the forms attached hereto as EXHIBITS G and H, respectively.

ARTICLE 12
Bonding Requirements

12.1 BOND. No operations are to be commenced on the Lowry Range until Rangeview, its Service Provider, the Export Water Purchaser or their agents have filed good and sufficient bonds with Land Board consistent with the requirements of C.R.S. Sec.38-26-106 and Sec.36-1-129 in an amount fixed by Land Board, to secure the payment for damages, losses or expenses caused by Rangeview, its Service Provider, the Export Water Purchaser or their agents as a result of operations on or under the Lowry Range. Land Board may waive the bonding requirements, in its discretion, and may require that the bond be maintained in full force and effect for one (1) year after cessation of the operations for which the bond was intended.

12.2 BOND OF CONTRACTORS. Bonds provided by contractors for construction activities to Rangeview, its Service Provider, or the Export Water Purchaser may list Land Board as a coinsured. As long as such bonds otherwise comply with Section 12.1 above and list Land Board as coinsured, the contractors shall not be required to obtain any other bonds for the Land Board. Contracts entered into by Rangeview, its Service Provider or the Export Water Purchaser which constitute public works shall comply with Sec. 24-91-103, 103.5 and 103.6, 10B C.R.S. (1988 Rplc.).

ARTICLE 13
Default and Remedies

13.1 EVENTS OF DEFAULT. The following events shall hereinafter be referred to as "Events of Default":

(a) Rangeview shall default in the due and punctual payment of royalties, rents or any other amounts payable hereunder, and such default shall continue for ten (10) business days after the applicable due date;

(b) This Agreement shall be transferred to or shall pass to or devolve upon any other person or party except as expressly permitted by this Agreement;

(c) This Agreement or the Non-Export Water or any part thereof shall be taken upon execution or by other process of law directed against Rangeview, or shall be taken upon or subject to any attachment at the instance of any creditor or claimant against Rangeview, and said attachment shall not be discharged or disposed of within sixty (60) days after the levy thereof;

(d) Rangeview shall file a petition in bankruptcy or insolvency or for reorganization or arrangement under the bankruptcy laws of the United States or under any insolvency act of any state, or shall be dissolved or shall make an assignment for the benefit of creditors;

(e) Involuntary proceedings under any such bankruptcy law or insolvency act or for the dissolution of Rangeview shall be instituted against Rangeview, or a receiver or trustee shall be appointed for all or substantially all of the property of Rangeview, and such proceeding shall not be dismissed or such receivership or trusteeship vacated within sixty (60) days after such institution or appointment;

(f) If either party shall fail to perform any material term, covenant or condition herein contained and such failure shall continue and not be cured for a period of thirty (30) days after written notice specifically setting forth the nature of the default has been given by the non-defaulting

party to the defaulting party, or if more than thirty (30) days is reasonably

required to cure such matter complained of, if the defaulting party shall fail to commence to correct the same within said thirty (30) day period and shall thereafter fail to prosecute the same to completion with reasonable diligence. For purposes of this subparagraph (f), if Rangeview has a Service Provider and such Service Provider shall breach any of its obligations to Rangeview, or if the Export Water Contractor shall breach any of its obligations to Rangeview, or if the Export Water Purchaser shall breach any of its obligations to Rangeview or the Export Water Contractor, and such acts or omissions also constitute or result in the failure to perform a material obligation for which Rangeview has responsibility hereunder, then the same shall constitute a material failure of performance by Rangeview. Further in such event, the thirty (30) day period provided in the first sentence of such subparagraph (f) shall be extended up to a maximum of sixty (60) days if Rangeview first attempts to require its Service Provider, the Export Water Contractor, or the Export Water Purchaser, as applicable, to cure during any applicable cure period provided in the agreements applicable to the defaulting party, so that if in such case the Service Provider, the Export Water Contractor, or the Export Water Purchaser, as applicable, fails to cure, Rangeview itself shall have an additional thirty (30) days to cure such material failure of performance. Thus, for example, if such a material failure of performance results from an act or omission of Rangeview's Service Provider, the Land Board may immediately give Rangeview notice regarding the same and thereby commence the running of Rangeview's cure period. That period would be thirty (30) days, unless Rangeview in turn gives notice to its Service Provider and commences an applicable cure period under the Service Provider Agreement, in which case if the Service Provider fails to cure, Rangeview would have an additional thirty (30) days to cure; provided that no more than a total of sixty (60) days shall be allowed for such cure period (subject to any reasonably required extension as provided in the first sentence of this paragraph (f)).

13.2 REMEDIES. If any one or more Events of Default shall occur and not be cured within any applicable cure period, then:

(a) If Rangeview is the defaulting party, Land Board, without prejudice to any other remedies that it may have, may give written notice of its intention to terminate this Agreement on the date of such notice or on any later date specified in such notice, and, on the date specified in such notice, Rangeview's right to possession of the premises will cease and this Agreement will be terminated (except as to Rangeview's liability set forth in this Section 13.2) as if the expiration of the term fixed in such notice were the end of the term of this Agreement. In connection with such termination, Land Board with notice may re-enter and take possession of the leased premises or any part thereof (subject to any existing licenses related to delivery of Export Water) and repossess the same as the Land Board's former

estate, and expel Rangeview from the premises and those claiming through or under Rangeview except with respect to the Export Water, and remove the effects of both or either, without being deemed guilty of any manner of trespass and without prejudice to any other remedies. In the event of such termination, Rangeview and its Service Provider shall surrender and peacefully deliver to the Land Board the above-described land and the Non-Export Water, and such land as was in Rangeview's possession or control shall be returned to the Land Board in good condition (subject to any existing licenses related to the delivery of Export Water), and the Land Board shall be entitled to the return of all Non-Export Water, plus the title to all infrastructure built to divert or withdraw and deliver Non-Export Water and any other interest in shared facilities for use with the Non-Export Water, plus the revenue stream associated with such Non-Export Water and the East Cherry Creek Agreement, and the reserves required to be maintained by Rangeview pursuant to Section 8.9. Upon such termination, if Rangeview shall remain in possession of any part of the Lowry Range (subject to any existing licenses related to delivery of Export Water) or Non-Export Water, Rangeview shall be guilty of an unlawful detainer and shall be subject to eviction or removal, forcibly or otherwise, to the extent provided by law.

(b) In the Event of Default by either party, the non-defaulting party shall be entitled to any and all damages proximately caused by the default or breach and its costs and reasonable attorney fees from the defaulting party. In addition, Rangeview shall be entitled to specifically enforce performance by the Land Board of the Land Board's obligations under this Agreement.

13.3 NO WAIVER. No failure by Rangeview or the Land Board, to insist upon the strict performance of any agreement, term, covenant or condition hereof or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial payment of any amount payable during the continuance of any such breach, shall constitute a waiver of any such breach of such agreement, term, covenant or condition hereof to be performed or complied

with by Rangeview or the Land Board, as the case may be. No breach thereof shall be waived, altered, or modified except by written instrument executed by the Land Board, or Rangeview, as the case may be. No waiver of any breach shall affect or alter this Agreement, but each and every agreement, term, covenant and condition hereof shall continue in full force and effect with respect to any other then-existing or subsequent breach thereof. Notwithstanding any termination of this Agreement, the same shall continue in force and effect as to any provisions hereof which require observance or performance of Rangeview or Land Board subsequent to termination.

13.4 LAND BOARD'S RIGHT TO CURE RANGEVIEW'S BREACH. The Land Board may, but shall not be obligated to, cure any default by Rangeview, specifically including, but not by way of

limitation, Rangeview's failure to pay any tax due hereunder, obtain insurance, make repairs, or satisfy lien claims, after providing reasonable notice to Rangeview, and whenever the Land Board so elects, all costs and expenses paid by the Land Board in curing such default, including, without limitation, reasonable attorneys' fees, shall be so much additional rent due ten (10) days after such payment together with interest at the rate of two percent (2%) per month from the date of advancement to the date of repayment by Rangeview to the Land Board.

ARTICLE 14
Improvements

14.1 TRANSFER OF IMPROVEMENTS. In the event this Agreement is terminated by forfeiture, surrender, or election upon default or breach, and no later than the expiration of this Agreement, title to all improvements and equipment and related permits and licenses and all rights-of-way on the Lowry Range exclusively for delivering Non-Export Water and interests in shared facilities used for delivery of Non-Export Water shall automatically, without the necessity of any further action by the Parties or anyone else, revert and be transferred to the Land Board as of the date of such forfeiture, surrender, election, upon default or breach, or as of the expiration of the Agreement. Such automatic reversion and transfer shall be conclusively evidenced of record by the Land Board's filing with the Clerk and Recorder for Arapahoe County a certificate stating the fact of such reversion and transfer. Title to improvements and rights-of-way on the Lowry Range for the sale of the use of Export Water including, without limitation, the East Cherry Creek Agreement, shall not be affected by termination of this Agreement.

14.2 ABANDONMENT OF EXPORT WATER FACILITIES. Once the Export Water Purchaser withdraws the entire portion of the Export Water purchased plus the entire amount of water recharged by the Export Water Purchaser and such purchaser has failed to recharge any portion of the aquifer for a period of ten (10) years, the Land Board shall have the right to notify the Export Water Purchaser in writing of its intention to declare the rights-of-way, improvements and equipment on the Lowry Range owned or licensed by such Export Water Purchaser as abandoned. The Export Water Purchaser shall have three (3) months from receipt of such notice to remove any improvements and equipment which can be removed without damaging the Lowry Range or any shared facilities. At the end of such three (3) month period, title to any improvements and equipment then remaining and all rights-of-way shall automatically, without necessity of any further action by the Export Water Purchaser or anyone else, revert and be transferred to the Land Board as of such date. Such automatic reversion and transfer shall be conclusively evidenced of record by the Land Board's filing with the Clerk and Recorder for Arapahoe County a certificate stating the fact of such reversion

and transfer. In the event of a dispute regarding this Section 14.2, the matter shall be determined by arbitration pursuant to Section 15.16 of this Agreement.

ARTICLE 15
General Provisions

15.1 ASSIGNMENT BY RANGEVIEW. Rangeview may assign its interest in this Agreement, but only upon terms expressly approved in writing by the Land Board in its sole discretion. Any attempted assignment in contravention of this section shall be null and void.

15.2 WORK REQUIREMENTS. To the extent work is performed on the Lowry

Range directly by (i) Rangeview or its Service Provider (ii) independent contractors of Rangeview or its Service Provider or (iii) a permitted assignee (in which case any reference to Rangeview shall be deemed to be a reference to the assignee where appropriate), the following shall apply:

(a) Indemnity. Rangeview and its Service Provider shall jointly and severally indemnify and hold harmless the Land Board against and from all liabilities, claims and demands, settlement or litigation expenses and related attorneys' fees (hereafter "Indemnified Items") for personal injury or property damage arising out of, or caused by, any act or omission of Rangeview, its Service Provider, or their contractors, agents or employees.

(b) Insurance. Rangeview shall at all times carry insurance in the amounts and for the liabilities required by Sec. 24-10-114, 10A C.R.S. (1988 Repl.), as amended, which insurance shall name the Land Board as an additional insured. Rangeview shall require its Service Provider at all times to carry insurance in amounts and with carriers reasonably acceptable to the Land Board for worker's compensation coverage in accordance with Colorado law, and for public liability insurance covering death and bodily injury with limits of not less than One Million Five Hundred Thousand Dollars ($1,500,000.00) for one person, and Five Million Dollars ($5,000,000.00) for any one accident or disaster, and property damage coverage with limits of not less than Five Hundred Thousand Dollars ($500,000.00), which insurance shall name the Land Board as an additional insured. The Land Board reserves the right to reasonably increase the limits of insurance required of the Service Provider as the Land Board may deem appropriate from time to time; provided that, if Rangeview or the Service Provider disputes the reasonableness of such increase, the matter shall be submitted to arbitration as provided in Section 15.16.

(c) Liens. Except with respect to liens or encumbrances expressly permitted hereunder, Rangeview and its

Service Provider shall jointly and severally indemnify and hold the Land Board harmless from and against all Indemnified Items relating to liens or claims of right to enforce liens arising from actions of Rangeview or its Service Provider, their contractors and agents. Rangeview and its Service Provider shall promptly cause any such lien to be removed notwithstanding the fact that Rangeview may believe that there is a valid defense to any such claim. Rangeview and its Service Provider shall retain the right to pursue any claims against the claimant after any such lien is removed.

(d) Permits and Licenses. Rangeview and its Service Provider shall, at their own expense, apply for and obtain all necessary building, occupancy, well and other permits and licenses which may be required by any governmental entity which has jurisdiction over the operations to be performed pursuant to this Agreement. Copies of all such permits and licenses shall be provided to the Land Board.

(e) Taxes. Rangeview and its Service Provider shall be jointly and severally responsible for and shall pay all taxes, fees and assessments, including payments pursuant to Sec. 36-1-120.5(5), 15 C.R.S. (1990 Rplc.), if any, in connection with the work, improvements, facilities or the materials to be utilized in accomplishing the activities of Rangeview or its Service Provider pursuant to this Agreement.

15.3 THIRD PARTY BENEFICIARIES. Except as otherwise contemplated by the provisions of this Agreement, it is not the intent of the Parties, nor shall it be the effect of this Agreement, to vest rights of any nature or form in individuals or entities not executing this Agreement.

15.4 NOTICE. All notices required by this Agreement shall be in writing and shall be delivered to the person to whom the notice is directed, either in person, by courier service or by United States mail as a certified item, return receipt requested, addressed to the address stated below. Notices delivered in person or by courier service shall be deemed given when delivered to the person to whom the notice is directed. Notices delivered by mail shall be deemed given on the date of delivery as indicated on the return receipt. The Parties may change the stated address by giving ten (10) days' written notice of such change pursuant to this section.

>RANGEVIEW METROPOLITAN DISTRICT:

Rangeview Metropolitan District

141 Union Boulevard, Suite 150
Lakewood, Colorado 80228

With a copy to:

Pure Cycle Corporation
5650 York Street
Commerce City, Colorado 80022
Attn: President

STATE BOARD OF LAND COMMISSIONERS:

Board of Land Commissioners
Attention: President
620 Centennial Building
1313 Sherman Street
Denver, Colorado 80203

With a copy to:

Office of Attorney General
Attn: State Land Board Attorney
1525 Sherman Street, Fifth Floor
Denver, Colorado 80203

15.5 CONSTRUCTION. Where required for proper interpretation, words in the singular shall include the plural, and the masculine gender shall include the neuter and the feminine, and vice versa, as is appropriate. The article and section headings are for convenience and are not a substantive portion of this Agreement. This Agreement shall be construed and interpreted in accordance with the laws of the State of Colorado. It shall be construed as if it were equally drafted in all aspects by all Parties.

15.6 ENTIRE AGREEMENT. This Agreement, including the items attached in accordance with the provisions of this Agreement and Service Provider Agreement and the Settlement Agreement and Mutual Release of even date herewith, constitute the entire agreement among the Parties pertaining to the subject matter of this Agreement and supersede all prior and contemporaneous agreements and understandings of the Parties as to the subject matter of this Agreement. No representation, warranty, covenant, agreement

or condition not expressed in this Agreement shall be binding upon the Parties or shall change or restrict the provisions of this Agreement.

15.7 AUTHORITY. Each of the Parties represents and warrants that it has all requisite power, corporate and otherwise, to execute, deliver and perform its obligations pursuant to this Agreement, that the execution, delivery and performance of this Agreement and the documents to be executed and delivered pursuant to this Agreement have been duly authorized by it, and that upon execution and delivery, this Agreement and all documents to be executed and delivered pursuant to this Agreement will constitute its legal, valid and binding obligations, enforceable against it in accordance with their terms.

15.8 COPIES. Numerous copies of this Agreement have been executed by the Parties. Each such executed copy shall have the full force and effect of an original, executed Agreement.

15.9 AMENDMENT. This Agreement shall not be amended except by a writing executed by all Parties.

15.10 COMPLIANCE WITH LAW. Rangeview and the Land Board covenant and agree that during the continuance of this Agreement, they shall comply fully with all provisions, terms, and conditions of all laws whether state or federal, and orders issued thereunder, which may be in effect during the continuance hereof, which in any manner affect their operations and the Lowry Range and the Water Rights which are the subject of this Agreement.

15.11 BINDING EFFECT. The benefits and terms and obligations of this Agreement shall extend to and be binding upon the successors or permitted assigns of the respective Parties hereto.

15.12 SEVERABILITY. If any clause or provision of this Agreement is illegal, invalid or unenforceable under present or future laws effective during the term of this

Agreement, then and in that event, it is the intention of the Parties hereto that the remainder of this Agreement shall not be affected thereby. It is also agreed that in lieu of each clause or provision of this Agreement that is illegal, invalid or unenforceable, there shall be added as a part of this Agreement a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

15.13 OPTIMUM LONG-TERM REVENUE. C.R.S. Sec. 36-1-118(1)(a) states that the public lands of the State of Colorado may be leased by the Land Board in such manner and to such persons as will produce an optimum long-term revenue. Article IX, Section 10 of the Colorado Constitution provides that the Land Board shall provide for the disposition of lands in such manner as will secure the maximum possible amount therefor. The Land Board determines that, under all existing facts and circumstances, this Agreement constitutes an arrangement which will produce an optimum long-term revenue and meet the requirements of C.R.S. Sec. 36-1-118(1)(a) and Article IX, Section 10 of the Colorado Constitution.

15.14 FURTHER ASSURANCE. Each of the Parties hereto, at any time and from time to time, will execute and deliver such further instruments and take such further action as may reasonably be requested by the other Party hereto, in order to cure any defects in the execution and delivery of, or to comply with or accomplish the covenants and agreements contained in, this Agreement and/or any other agreements or documents related thereto.

15.15 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado and applicable federal law.

15.16 ARBITRATION. Any controversy or claim arising out of or relating to the computation of royalties or net profits interest under this Agreement, and all other controversies or claims which the Parties have expressly agreed herein shall be submitted to arbitration, shall be settled by

arbitration administered by the American Arbitration Association in accordance with its commercial rules, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Rangeview and the Land Board agree that the Service Provider, the Export Water Contractor, or the Export Water Purchaser, as applicable, may participate directly in any arbitration which affects such entity's rights and/or obligations with respect to the Water Rights; provided such entity agrees to be bound by the arbitration award to the same extent as the Land Board and Rangeview.

15.17 LITIGATION. Except as provided in Section 15.16 above, in the event of claims, disputes or other disagreements between the Parties which the Parties are not able to resolve amicably, either party may bring suit in a court of competent jurisdiction seeking resolution of the matter.

15.18 DUTY OF GOOD FAITH AND FAIR DEALING. The parties acknowledge and agree that each party has a duty of good faith and fair dealing in its performance of this Agreement. Rangeview will advise the Land Board of its and its Service Provider's activities no less than annually until such time as production of Water Rights exceeds 500 acre feet per year and thereafter, quarterly during the term of this Agreement and will respond to reasonable requests of the Land Board for additional information on Rangeview's and its Service Provider's activities affecting the Lowry Range.

15.19 FORCE MAJEURE. Should either Party be unable to perform any obligation required of it under this Agreement, other than the payment of money, due to any cause beyond its control (including, but not limited to war, insurrection, riot, civil commotion, shortages, strikes, lockout, fire, earthquake, calamity, windstorm, flood, material shortages, failure of any suppliers, freight handlers, transportation vendors or like activities, or any other force majeure), then such party's performance of any such obligation shall be suspended for such period as the party is unable to perform such obligation.

>IN WITNESS WHEREOF, the Land Board has caused these presents to be executed in multiple originals by the State Board of Land Commissioners and sealed with the official seal of the Land Board. Rangeview has similarly executed this Agreement this 4th day of April, 1996.

APPROVED AS TO FORM:

GALE A. NORTON
Attorney General of the
State of Colorado

STEPHEN K. ERKENBRACK
Chief Deputy Attorney
General

TIMOTHY M. TYMKOVICH
Solicitor General

/s/ Richard A. Westfall
- -------------------------
Richard A. Westfall
Special Deputy Solicitor
General

STATE OF COLORADO
STATE BOARD OF LAND COMMISSIONERS

/s/ Maxine F. Stewart

President

RANGEVIEW METROPOLITAN DISTRICT,
ACTING BY AND THROUGH ITS WATER
ACTIVITY ENTERPRISE

By: /s/ Thomas P. Clark

Its: President

STATE OF COLORADO)
) SS.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 9th day of April, 1996, by Maxine F. Stewart, as President of the State of Colorado, State Board of Land Commissioners.

Witness my hand and official seal.

My commission expires: July 28, 1997

/s/ Kathleen N. Akin

Notary Public

STATE OF COLORADO)
CITY AND) SS.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 9th day of April, 1996, by Thomas P. Clark, as President , of Rangeview Metropolitan District.

Witness my hand and official seal.

My commission expires: July 17, 1996

/s/ Joan M. Brennan

Notary Public

EXHIBITS

Exhibit A Water Previously Conveyed

Exhibit B Service Agreement

Exhibit C Export Water Contract

Exhibit D Master Plan of Well Field and Rights-of-Way

Exhibit E Pipe Sizes

Exhibit F Right-of-Way Grant Form

Exhibit G Service Provider Right-of-Way License

Exhibit H Export Water Contractor Right-of Way License

Exhibit I Guaranty

BARGAIN AND SALE DEED

This Bargain and Sale Deed (the "Deed") is dated the 11th day of April, 1996, among the State of Colorado, acting by and through the State Board of Land Commissioners (the "Land Board"), whose address is 620 Centennial Building, 1313 Sherman Street, Denver, Colorado 80203, and Rangeview Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water activity enterprise ("Rangeview"), whose address is 141 Union Boulevard, Suite 150, Lakewood, Colorado 80228 (Rangeview and Land Board being collectively referred to herein as "Grantors"), and Pure Cycle Corporation, a Delaware corporation ("Grantee"), whose address is 5650 York Street, Commerce City, Colorado 80022.

WITNESSETH, that Rangeview, for and in consideration of delivery from Pure Cycle to Rangeview of Rangeview Metropolitan District Water Revenue Bonds, Series 1988M, Rangeview Metropolitan District Water Revenue Notes, Series 1988A-L, Rangeview Metropolitan District Water Revenue Notes, Series 1987A-L, and other good and valuable consideration, the receipt of which is hereby acknowledged by Rangeview; and the Land Board, for and in consideration of (a) Rangeview's agreement to obtain and extinguish all said notes and bonds, (b) other consideration contained in the Amended and Restated Lease Agreement No. S-37280, dated April 11, 1996 between Rangeview and the Land Board, which Lease is recorded with the Arapahoe County Clerk and Recorder at Book No. A6097802, Page No. _____ (Reception No. A6097802) (the "Lease"), and (c) other good and valuable consideration, the receipt of which is hereby acknowledged by the Land Board; do hereby severally grant, bargain, sell, convey, assign and confirm unto Grantee, its successors and assigns forever, the Export Water (as that term is defined in the Lease) which is located on and under that certain real property consisting of approximately 24,567.21 acres, more or less, according to U.S. Government survey, in Arapahoe County, Colorado, more particularly described as follows (the "Lowry Range"):

Township 5 South, Range 64 West of the 6th P.M.,
Sections 7 through 10: all;
Sections 15 through 22: all;
Sections 27 through 34: all.

Township 4 South, Range 65 West of the 6th P.M.,
Sections 33: all and 34: all.

Township 5 South, Range 65 West of the 6th P.M.,
Section 3: all; Sections 10 through 15: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 15; Sections 22 through 27: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 22; Sections 35 and 36: all; Section 34: north 2,183.19 feet.

Township 5 South, Range 66 West of the 6th P.M.,
Section 36: all

(a street address of the Lowry Range does not exist);

TOGETHER WITH all rights afforded to the Export Water under the Lease;

SUBJECT TO the reservations, exceptions, terms, and conditions, including, without limitation, provisions concerning royalty payments, quality of water, abandonment, shared use of transmission lines and facilities, default and termination of rights to Export Water, set forth in the Lease, which reservations, exceptions terms and conditions, and the rights of the Land Board and Rangeview with respect thereto, shall not be modified or superseded by any provision in this Deed, it being understood and agreed that the provisions hereof are merely cumulative of the provisions of the Lease;

FURTHER SUBJECT TO rights of first refusal, if any such rights exist, to the Export Water which may be held by the County of Arapahoe, Colorado, or East Cherry Creek Valley Water and Sanitation District;

AND SUBJECT FURTHER TO the covenants, conditions and restrictions set forth herein and in the water decrees by which such water is adjudicated, which decrees shall remain in the name of the Land Board subject to the provisions of the Lease;

TO HAVE AND TO HOLD the Export Water, and its appurtenances, unto Grantee, its successors and assigns forever.

ARTICLE I

Decrees

Rangeview represents that the following water decrees currently adjudicate the water rights of which the Export Water is a part:

> Case Nos. 83CW330, 83CW373, 89CW048, and 89CW164, District Court, Water Division 1, and plan for augmentation to allow use of not nontributary Denver aquifer groundwater as pending in Case No. 94CW048, and application to change decreed well locations as pending in Case No. 94CW049, District Court, Water Division 1.

ARTICLE II

Royalties and Reporting

2.1 Payment to Land Board. As between Rangeview and Grantee, Grantee shall be responsible for and shall timely pay directly to the Land Board all royalties payable to the Land Board by the Export Water Purchaser (as that term is defined in the Lease) pursuant to the Lease. Notwithstanding the foregoing, Rangeview may, at its option, pay to the Land Board any royalties due but not paid by Grantee on the Export Water in order to prevent a default under the Lease. In such case, Rangeview shall be entitled to interest on any royalties paid by Rangeview on the Export Water at the rate of two percent (2%) per month from the date paid by Rangeview and Rangeview may exercise any other remedies it may have, including its termination rights under Section 6.6 of the Lease.

2.2 Reporting. In addition to any requirements under the Lease, Grantee shall prepare the following reports:

(a) Grantee shall report to Rangeview the quantity of Export Water delivered (including any recharged or stored water pursuant to Section 6.2(a) of the Lease), the exact amount of Gross Revenues or, if applicable, Retail Sales Price (as those terms are defined in the Lease) relating to the sale or other disposition of Export Water, and the entity to whom the Export Water was delivered. The report shall be due within twenty (20) days after the end of each calendar year, until such time as Rangeview notifies Grantee that production of Export Water and Non-Export Water (as defined in the Lease) has reached 500 acre feet in a calendar year, and thereafter, on or before the twentieth (20th) day following the end of each calendar quarter during the term of the Lease.

(b) Grantee shall prepare and keep full, complete, and proper books, records and accounts of all Export Water (including any recharged or stored water pursuant to Section 6.2(a) of the Lease) sales or dispositions and shall document such transactions as may be required by law. Said books, records, and accounts of Grantee shall be open at all reasonable times, upon ten (10) days' prior written notice, to the inspection of Rangeview, the Land Board and their respective representatives who may, at Rangeview's or the Land Board's expense, as applicable, copy or extract all or a portion of said books, records, and accounts for a period of up to five (5) years after the date such books, records and accounts are made. The Land Board's right to inspection shall not prejudice the Land Board's right to collect payments due pursuant to the Lease. Rangeview or the Land Board may, upon no less than fourteen (14) days' prior written notice to Grantee, cause a partial or complete audit of the entire records and operations of Grantee for a five (5) year period preceding the date of the audit relating to the use of Export Water pursuant to this Deed to be made at Rangeview's or the Land Board's expense, as applicable, by an auditor selected by Rangeview or the Land Board, as applicable. Within fourteen (14) days following Rangeview's or the Land Board's notice, as applicable, Grantee shall make available to Rangeview's or the Land Board's auditor, as applicable, the books and records the auditor reasonably deems necessary or desirable for the purpose of making the audit. Any deficiency in the payment of royalties determined upon such audit shall be immediately due and payable to the Land Board, together with interest thereon at the rate of two percent (2%) per month from the date or dates such amounts should have been paid. If such deficiency is in excess of two percent (2%) of the royalty previously paid, then Grantee shall pay to the auditing party the actual cost of the audit at the time the deficiency is paid.

ARTICLE III

General Provisions

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3.1 Notice. All notices required by this Deed or the Lease shall be in writing and shall be delivered to the person to whom the notice is directed at the address set forth below, either in person, by courier service or by United States mail as a certified item, return receipt requested, addressed to the address stated below. Notices delivered in person or by courier service shall be deemed given when delivered to the person to whom the notice is directed. Notices delivered by mail shall be deemed given on the date of delivery as indicated on the return receipt. The parties may change the stated address by giving ten (10) days' written notice of such change pursuant to this Section.

If to Rangeview:

Rangeview Metropolitan District
141 Union Boulevard, Suite 150
Lakewood, Colorado 80228
Attention: President

If to the Land Board:

Board of Land Commissioners
Attention: President
620 Centennial Building
1313 Sherman Street
Denver, Colorado 80203

and

Office of the Attorney General
Attention: State Land Board Attorney
1525 Sherman Street, Fifth Floor
Denver, Colorado 80203

If to Grantee:

Pure Cycle Corporation
5650 York Street
Commerce City, Colorado 80022
Attention: President

3.2 Construction. Where required for proper interpretation, words in the singular shall include the plural, and the masculine gender shall include the neuter and the feminine, and vice versa, as is appropriate. The article and section headings are for convenience and are not a substantive portion of this Deed. This Deed shall be construed as if it were equally drafted in all aspects by all parties. All capitalized terms herein not otherwise defined shall have the same meaning as provided with respect to such terms in the Lease.

3.3 Severability. If any clause or provision of this Deed is illegal, invalid or unenforceable under present or future laws, then, and in that event, it is the intention of the parties hereto that the remainder of this Deed shall not be affected thereby. It is also agreed that in lieu of each clause or provision of this Deed that is illegal, invalid or unenforceable, there shall be added as a part of this Deed a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

3.4 Governing Law. This Deed shall be governed by and construed in accordance with the laws of the State of Colorado and applicable federal law.

(a).a No Oral Amendment or Modifications. No amendments, waivers or modifications of the terms and provisions contained in this Deed, and no acceptances, consents or waivers by the Land Board or Rangeview under this Deed, shall be valid or binding unless in writing and executed by the party to be bound thereby. Any covenant, condition or restriction contained in this Deed may be terminated, extended, modified or amended, as to the whole of the Export Water or any portion thereof, only by the written consent of the Land Board and Rangeview. No such termination, extension, modification or amendment shall be effective unless and until a proper instrument in writing has been executed and recorded in the records of the Clerk and Recorder of Arapahoe County.

(a).b Binding Effect. This Deed shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The covenants, conditions, and restrictions contained in this Deed and, where applicable, the Lease, shall be construed as covenants running with the Export Water, and every person who now or hereafter owns or acquires any right, title,

estate or interest in or to the Export Water is and shall be conclusively deemed to have consented and to have agreed to every covenant, condition, and restriction contained in this Deed and, where applicable, the Lease, whether or not any reference to such covenant, condition, or restriction is contained in the instrument by which such person acquires an interest in the Export Water.

IN WITNESS WHEREOF, the Land Board has caused this Deed to be executed by the State Board of Land Commissioners and sealed with the official seal of the Land Board. Rangeview has similarly executed this Deed this 11th day of April, 1996.

STATE OF COLORADO
STATE BOARD OF LAND COMMISSIONERS

/s/ Maxine F. Stewart
Maxine F. Stewart, President

APPROVED AS TO FORM:

GALE A. NORTON, Attorney General
STEPHEN K. ERKENBRACK, Chief Deputy Attorney General
TIMOTHY M. TYMKOVICH, Solicitor General

/s/ Richard A. Westfall
Richard A. Westfall
Special Deputy Solicitor General

State of Colorado

RANGEVIEW METROPOLITAN DISTRICT,
ACTING BY AND THROUGH ITS WATER
ACTIVITY ENTERPRISE

ATTEST:

By: /s/ Mark Harding
Title: Secretary

By: /s/ Thomas P. Clark
Title: President

STATE OF COLORADO)
) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 9th day of April, 1996 by Maxine F. Stewart, as President, of the State of Colorado, State Board of Land Commissioners.

Witness my hand and official seal.

My commission expires: July 28, 1997

/s/ Kathleen N. Akin
Notary Public

STATE OF COLORADO)
City and) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 9th day of April, 1996 by Thomas P. Clark, as President, and by Mark Harding, as Secretary, of Rangeview Metropolitan District.

Witness my hand and official seal.

My commission expires: July 17, 1996

/s/ Joan M. Brennan

Notary Public

MORTGAGE DEED, SECURITY AGREEMENT, AND
FINANCING STATEMENT

This Mortgage Deed, Security Agreement, and Financing Statement ("Mortgage Deed") is dated the 11th day of April, 1996, between the State of Colorado, acting by and through the State Board of Land Commissioners (the "Land Board" or "Mortgagee"), whose address is 620 Centennial Building, 1313 Sherman Street, Denver, Colorado 80203, and Pure Cycle Corporation, a Delaware corporation ("Pure Cycle" or "Mortgagor"), whose address is 5650 York Street, Commerce City, Colorado 80022. The Land Board is the Secured Party/Creditor and Pure Cycle is the Debtor.

WITNESSETH, that in order to secure the payment of certain obligations under an agreement entitled Comprehensive Amendment Agreement No. 1 among Pure Cycle, the Land Board, and others dated April 11, 1996 (the "Comprehensive Agreement"), the Mortgagor does hereby grant, bargain, sell, convey, and assign unto the Mortgagee, its successors and assigns, the Export Water (as that term is defined in the Amended and Restated Lease Agreement No. S-38280, dated April 11, 1996, between Rangeview Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water activity enterprise, and the Land Board recorded with the Arapahoe County Clerk and Recorder at Book No. _____, Page No. _____ (Reception No. _____), which definition of Export Water is incorporated by this reference) which Export Water is located on and under that certain real property consisting of approximately 24,567.21 acres, more or less, according to U.S. Government Survey, in Arapahoe County, Colorado, more particularly described as follows (the "Lowry Range"):

Township 5 South, Range 64 West of the 6th P.M.,

Sections 7 through 10: all;
Sections 15 through 22: all;
Sections 27 through 34: all.

Township 4 South, Range 65 West of the 6th P.M.,

Sections 33: all and 34: all.

Township 5 South, Range 65 West of the 6th P.M.,

Section 3: all; Sections 10 through 15: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 15; Sections 22 through 27: all, less certain surface rights granted for the Aurora Reservoir (but including the water under the Aurora Reservoir) in Section 22; Sections 35 and 36: all; Section 34: north 2,183.19 feet.

Township 5 South, Range 66 West of the 6th P.M.,

Section 36: all

(a street address of the Lowry Range does not exist);

TO HAVE AND TO HOLD the same, together with all and singular the privileges and appurtenances thereunto belonging forever; provided always, that if the Mortgagor or its successor or assigns shall pay or cause to be paid to the Mortgagee, or its successors or assigns, the obligations under the Comprehensive Agreement in accordance with the terms of the Comprehensive Agreement and shall in the meantime keep and perform the covenants and agreements herein contained, then these presents shall be null and void, but otherwise remain in full force and effect.

This Mortgage Deed shall constitute a security agreement and financing statement, in accordance with the Uniform Commercial Code of Colorado, with respect to all personal property and fixtures included within the Export Water located on and under the Lowry Range. Mortgagor, as Debtor, does hereby grant a security interest in the Export Water, and all its substitutions, additions, replacements and proceeds, to the Mortgagee, as Secured Party.

That the Mortgagor, for itself and its successors and assigns, covenants and agrees to and with the Mortgagee, its successors and assigns, that it holds the said premises free and clear of all liens and encumbrances, that the Mortgagor will pay in due season all taxes and assessments levied on said premises; that it will pay the costs and attorneys' fees incurred by the Mortgagee, or its successors and assigns in any foreclosure action, other suit or proceeding, by reason hereof; and that upon default in the payment of the obligations under the Comprehensive Agreement or any part thereof, or upon the breach of any of the covenants or agreements herein contained; this Mortgage Deed may be forthwith foreclosed.

IN WITNESS WHEREOF, the Mortgagor has executed this Mortgage Deed on the

date set forth above.

PURE CYCLE CORPORATION

Attest:

By: /s/ Mark W. Harding
Mark W. Harding, Secretary

By: /s/ Thomas P. Clark
Thomas P. Clark, President
Tax Payer ID No. 84-0705083

STATE OF COLORADO)
City and) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 9th day of April, 1996, on behalf of Pure Cycle Corporation, by Thomas P. Clark, as President, and by Mark W. Harding, as Secretary.

Witness my hand and official seal.

My commission expires: July 17, 1996

/s/ Joan M. Brennan
Notary Public

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Pure Cycle Corporation:

We consent to the use of our report dated October 10, 2003, except Note 13 which is dated April 26, 2004, in the registration statement on Form SB-2, as amended, with respect to the balance sheets of Pure Cycle Corporation as of August 31, 2003 and 2002, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and to the reference to our firm under the headings "Selected Financial Data" and "Experts" in the prospectus.

/s/ KPMG LLP

KPMG LLP

Denver, Colorado
June 4, 2004