

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

Form 10-KSB

X ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended August 31, 2002

Commission File Number 0-8814

PURE CYCLE CORPORATION

(Name of small business issuer as specified in its charter)

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

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

Issuer's telephone number: (303) 292-3456

Securities registered under Name of each exchange  
Section 12(b) of the Exchange Act: Title of Class on which registered

None None

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

Common Stock,  
1/3 of \$.01 par value  
(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

Revenues for fiscal year ended August 31, 2002: \$ 204,858

Aggregate market value of voting stock held by non-affiliates: \$13,340,580  
(based upon closing price on the OTC Bulletin Board on October 11, 2002)

Number of shares of Common Stock outstanding, as of  
August 31, 2002: 78,474,004

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [x]

Documents incorporated by reference: None  
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"SAFE HARBOR" STATEMENT UNDER THE UNITED STATES PRIVATE  
SECURITIES LITIGATION REFORM ACT OF 1995

Statements that are not historical facts contained in this Annual Report on Form 10-KSB are forward looking statements involving risk and uncertainties that could cause actual results to differ from projected results. Factors that could cause actual results to differ materially include, among others, the market price of water, changes in applicable statutory and regulatory requirements, changes in technology, uncertainties in the estimation of water available under decrees and timing and cost of development and delivery, uncertainties in the estimation of revenues and costs of construction projects, the strength and financial resources of the Company's competitors, the Company's ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, delays in anticipated permit and start-up dates, environmental risks, the results of financing efforts, and general economic conditions.

PART I

Item 1. Description of Business

General

Pure Cycle Corporation (the "Company") was incorporated in Delaware in 1976. The Company is engaged in providing water and wastewater services to customers located in Denver, Colorado. The Company operates water and wastewater systems which 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, which the Company seeks to utilize to enable it to reuse its water supplies. There have been no significant changes in the way the Company does business during the year. The Company's focus continues to be to provide water and wastewater service to customers within its service area and to expand its service to other areas throughout the Denver metropolitan area and the southwestern United States.

Description of Company Assets

Rangeview Water Supply

In 1996, the Company entered into a landmark water privatization agreement with the State of Colorado and the Rangeview Metropolitan District (the "District") for the development of over 26,000 acre feet of water in the Denver metropolitan area. The water privatization agreement enabled the Company to acquire ownership to a total gross volume of 1,165,000 acre feet of groundwater (with an annual usage right of 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"). The Company also entered into two eighty-five year water and wastewater privatization agreements ("Service Agreements") with the District to design, construct, operate, and maintain the District's water and wastewater systems to service customers within the District's 24,000 acre service area which is located in the greater Denver metropolitan area in Arapahoe County ("Service Area"). The District has reserved approximately 14,350 acre feet per year of water and surface reservoir storage capacity (collectively referred to as the "Service Area Water Supply") for use within the District's Service Area. Development of the Rangeview water supply is divided into two opportunities: one phase is the development and distribution of the Export Water Supply to Denver area water providers in need of additional water supplies; and the

second, is the development of water and wastewater service to customers within the Service Area. The Company also owns a right of first refusal to purchase 40 acres of real property which constitute the boundaries of the District, and the Company's President and CEO serves as elected members of the Board of Directors of the District.

#### Comprehensive Amendment Agreement

In order to acquire the Rangeview water supply, the Company negotiated an agreement with the State of Colorado and all of the holders of the Rangeview bonds (the "Settlement Agreement") and the Water Commercialization Agreement (the "WCA") and similar agreements with all prior investors relating to the development of the Rangeview water asset. Pursuant to this amendment known as the Comprehensive Amendment Agreement (the "CAA") such bond holders and investors have a right to receive a total of \$31,807,000 from the proceeds of a sale or other disposition of the Export Water Supply (see Note 3 to the financial statements).

#### Service Agreements

In 1996, the Company entered into an eighty-five year water privatization agreement with the District to design, construct, operate, and maintain the District's water system to provide water service to customers within the Service Area. The District has reserved approximately 14,350 acre feet of water per year, together with surface reservoir storage capacity for the Company's use in providing water service to customers within the District's Service Area. In exchange for providing water service to customers within the Service Area, the Company will receive 95% of all amounts received by the District relating to water services remaining after payment of royalties to the State of Colorado Land Board.

In January of 1997, the Company entered into an eighty-five year Wastewater Service Agreement with the District which provides for the Company to design, finance, construct, operate and maintain the District's wastewater system to provide wastewater service to customers within the Service Area. In exchange for providing wastewater service to customers within the Service Area, the Company will receive 100% of the District's wastewater tap fees, and 90% of the District's wastewater usage fees.

The Company supplies water and wastewater services to customers within the 24,000 acres of property which constitute the boundaries of the Service Area. The Service Area is located in southeastern Arapahoe County, Colorado, a growing county bordering Denver, Colorado. Currently the majority of the property is undeveloped land owned by the State of Colorado; however, portions of the property are currently under development. Development of the property is dependent on overall growth in the Denver metropolitan area.

#### Paradise Water Supply

In 1987, the Company acquired certain water, water wells, and related assets from Paradise Oil, Water and Land Development, Inc., which constitute the "Paradise Water Supply." The Paradise Water Supply includes 70,000 acre feet of tributary Colorado River decreed water, a right-of-way permit from the United States Department of the Interior, Bureau of Land Management, for the construction of a 70,000 acre foot dam and reservoir across federal lands, and four water wells ranging in depth from 900 feet to 1,800 feet. The water wells are capable of producing approximately 7,500 - 9,400 gallons per minute or approximately 14,000 acre feet per well per year with an artesian pressure of approximately 100 pounds per square inch.

#### Recycling Technology

The Company developed and patented water recycling technology which converts single-family home wastewater/sewage into pure potable drinking water. The Company manufactured, installed and operated the single-family water recycling units in the late 1970's and early 1980's until halting production of the units in 1982. The Company has shifted its strategic market for its water recycling technology from its original single-family units to large municipal wastewater treatment applications. The Company has not operated a large wastewater treatment plant using its technologies and there can be no assurance that the technology will be technically or economically feasible on a large scale. The Company, through its Wastewater Service Agreement, will seek to apply its water recycling technology as more customers are added to the system to treat municipal wastewater into pure potable water for reuse.

#### The Business

Beginning in fiscal 1987, and continuing through fiscal 2002, the Company has acquired a portfolio of water assets which are described above in the Description of Company Assets. This portfolio of water assets can be used to provide water service to customers located throughout the Denver metropolitan area and the Company has acquired the exclusive right to provide water and wastewater service to customers located within the Service Area. The Company seeks to utilize its water assets and wastewater treatment technologies to privatize other government owned water and wastewater systems

in Colorado and throughout the western United States.

The Rangeview Metropolitan District is a quasi-municipal, political subdivision of the State of Colorado and is empowered to provide water and wastewater services to approximately 24,000 acres of property located south and east of Denver metropolitan area, which is owned by the State of Colorado (the "Service Area?").

The development of the District's Service Area is dependent on growth in the Denver metropolitan area, and on the State of Colorado selling portions of its property located within the Service Area to parties interested in the development of the land. The District has reserved approximately 14,350 acre feet of water annually, together with surface reservoir storage capacity, to provide water service to the property. The District completed a study in 1997 to analyze the future development opportunities for the property and defined three categories of land uses: residential, commercial/light industrial, and open space. Approximately 10,000 acres is suitable for residential development accommodating up to 70,000 single-family homes; approximately 2,200 acres is suitable for commercial and light industrial development along the primary access corridors; and the remaining 11,800 acres is suitable for open space (i.e. parks, playing fields, and golf courses).

Pursuant to the Company's water and wastewater Service Agreements, the Company will develop, operate and maintain the District's water and wastewater systems. In exchange for developing, operating and maintaining the District's water system, the Company receives 95% of the water tap fee and usage fee revenues after payment of a twelve percent (12%) royalty to the State Land Board. In exchange for developing, operating and maintaining the District's wastewater system the Company receives 100% of the District's wastewater tap fees and 90% of the District's wastewater usage fees. The Company's rates and charges are established pursuant to the Settlement Agreement to be the average of similar rates and charges of the three surrounding municipal water providers. Portions of the Company's participation in the water and wastewater tap fees and user fees are required to be used to finance the development of facilities needed to furnish water and wastewater service.

The 40 largest municipal water providers in the Denver metropolitan area deliver approximately 98% of the water consumed by residents and businesses in the Denver metropolitan area. The Company is actively marketing the Export Water Supply to each of the 40 largest providers. The Export Water Supply could be sold for a lump sum amount or incrementally pursuant to service contracts whereby the Company would design, construct, operate and maintain the water system to deliver the water to customers. The timing, terms, and conditions of sales, if any, are dependent on the purchaser.

The Company is also pursuing the sale of water from the Paradise Water Supply to users in the Denver metropolitan area and to cities, municipalities, and special districts in the downstream states of Arizona, Nevada and California. However, there are certain restrictions under the Colorado River Compact which relate to a reallocation of water from one state to another, including a requirement that a court decree authorizing the use of the water out of state be obtained, and compliance with other interstate compacts or agreements, which would need to be resolved or complied with before the Paradise Water Supply can be sold to users outside of Colorado.

The Company's business of providing water and wastewater services is subject to competitive factors since alternative providers are available. The Company is aware of other private water companies who are attempting to market competing service to municipal water providers in the Denver area. In addition, municipal water providers seeking to acquire water evaluate independent water owned by individuals, farmers, ranchers, and others. The principal factors affecting competition in this regard include, but may not be limited to, the availability of water for the particular purpose, the cost of delivering the water to the desired location, the availability of water during dry year periods, the quality and quantity of the water source, and the reliability of the water supply. The Company believes that its water provides the Company with an advantage over its competition because the water the Company owns has been designated for municipal use by decrees issued by Colorado water courts, and because of the quantity of water available, the quality of water, its location relative to the Denver metropolitan area (and Paradise's location to deliver water to either downstream users or Denver area water users through exchanges or other transfers), and price. The quantity of water the Company has available for sale has been determined by court decrees of the Colorado water courts. The Company has had the quality and quantity of the Rangeview and Paradise Water Supply evaluated by independent appraisers and water engineers. The Rangeview water quality, without treatment, meets or exceeds all current federal and state drinking water standards.

Water processing and municipal water recycling are also subject to competition from municipal water providers who also provide wastewater/sewage processing, and from regional wastewater/sewage processors. The majority of wastewater/sewage treatment in the Denver metropolitan area is processed by

approximately 10 major wastewater/sewage treatment providers. The majority of Denver area water providers participate in the Metropolitan Wastewater Authority which processes approximately 95% of the area's wastewater/sewage. The Company is not aware of any private companies providing wastewater/sewage treatment services in the Denver metropolitan area. The Company believes that it could have a competitive advantage because its wastewater treatment technology uses no toxic chemicals and the water after processing exceeds stringent water quality standards currently in effect. Additionally, residual material created in the wastewater treatment process can be composted into a high grade fertilizer for agricultural use.

If the Company is successful in selling water, the construction of wells, dams, pipelines and storage facilities may require compliance with environmental regulations; however, the Company believes that regulatory compliance would not materially impact such a sale. It is anticipated that the Company, as part of its commitment to provide water and wastewater services, would design, construct and operate the water and wastewater systems. The Company would incur substantial capital expenditures to construct the facilities necessary to provide its water and wastewater service. However, the Company cannot assess such costs until the purchaser of the water and the nature of the water delivery system required has been determined. Similarly if the Company were to obtain a contract for treatment of wastewater and sewage, governmental regulations concerning drinking water quality and wastewater discharge quality may be applicable. However, until the Company has a contract proposal specifying the quantity and type of wastewater to be treated and the proposed use of such treated water, the cost of regulatory compliance cannot be determined.

The Company holds several patents in the United States and abroad related to its water recycling system and its components. The value to the Company of these patents is dependent upon the Company's ability to adapt its water recycling system to larger scale applications, or to develop other uses for the technology.

The Company currently has two full time employees and one part time employee.

#### Item 2. Description of Property

The Company currently leases office facilities from a related party at the address shown on the cover page.

The Company owns a total gross volume of 1,165,000 acre feet (approximately 11,650 acre feet per year) of non-tributary groundwater, an option to substitute 1,650 acre feet of tributary surface water in exchange for a total gross volume of 165,000 acre feet of non-tributary groundwater, and surface storage rights from the District. See "Item 1. Description of Business - Description of Company's Assets - Rangeview Water Supply." The Company is party to two eighty-five year water privatization agreements with the Rangeview Metropolitan District which entitles the Company to design, construct, operate and maintain the water and wastewater systems which serve customers within the District's Service Area. In exchange, the Company receives 95% of all amounts received by the District relating to water services remaining after payment of royalties to the State of Colorado Board of Land Commissioners, and 100% of the District's wastewater tap fees and 90% of the District's wastewater usage fees.

The Company owns approximately 70,000 acre feet of conditional water rights, water wells and related assets in the State of Colorado by assignment and quitclaim deed. See "Item 1. Description of Business - Description of Company's Assets - Paradise Water Supply."

#### Item 3. Legal Proceedings

The Company has no legal proceedings.

#### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter ended August 31, 2002.

## PART II

#### Item 5. Market for Common Equity and Related Stockholder Matters

##### Markets

The table below shows for the quarters indicated the high and low bid prices of the Common Stock on the OTC Bulletin Board. The Company's Common Stock is traded on the OTC Bulletin Board under the trade symbol PCYL. As of November 19, 2002, there were 3,858 holders of record of the Company's Common stock.

Fiscal Quarter	Low	High
2002 First	\$ .08	\$ .15
Second	\$ .06	\$ .12
Third	\$ .06	\$ .21
Fourth	\$ .09	\$ .19
2001 First	\$ .0625	\$ .12
Second	\$ .05	\$ .13
Third	\$ .08	\$ .13
Fourth	\$ .0625	\$ .18

Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

#### Dividends

The Company has never paid any dividends on its common stock and does not anticipate paying any dividends in the foreseeable future. Dividends cannot be paid on the common stock at any time when there are unpaid accrued dividends owing on the Company's outstanding Preferred Stock.

#### Recent Sales of Unregistered Securities

In August 2001, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 6,455,000 shares of Series D Preferred Stock to the Company's CEO, Mr. Thomas Clark in exchange for 421,666 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. The Company 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. The Company sold 625,000 shares of the Company's Common Stock at \$.16 per share to two accredited investors. Proceeds to the Company were \$100,000. The shares were issued under Section 4(2) of the Securities Act of 1933.

#### Item 6. Management's Discussion and Analysis

##### General

Pure Cycle is engaged in the privatization of municipal water and wastewater systems in Colorado. The Company seeks to use its water and water technologies to enhance the availability and quality of domestic drinking water. The Company purchased approximately 1,165,000 acre feet of water (11,650 acre feet annually) and entered into two eighty-five year water and wastewater Service Agreements with the Rangeview Metropolitan District which enables the Company to provide water and wastewater service to its Service Area and other customers located throughout the Denver area. The Company intends to integrate its water recycling technologies for processing wastewater into pure potable water for reuse at its wastewater treatment facility as wastewater flows increase from development within the District's Service Area increases.

The Company is aggressively pursuing the marketing and sale of its water rights to municipal water providers in the Denver metropolitan region as well as users in Arizona, Nevada and California to generate current and long term revenue sources. During fiscal year 2002, the Company delivered approximately 54.5 million gallons of water and processed approximately 3.7 million gallons of wastewater for customers within the District's Service Area. The Company continues to meet with developers and other parties interested in developing portions of the District's Service Area. The District's Service Area is primarily undeveloped land owned by the State of Colorado situated in growing Arapahoe County. A portion of the property is currently developed and the Company has constructed the water and wastewater systems to serve customers on the property.

In addition to the Company's Service Area activities, the Company continues to meet with Denver area water providers to develop and sell the Company's Export Water Supply. Denver area water providers continue to experience strong regional growth rates which continue to pressure their developed water supplies. The Company is marketing its Export Water Supply to water providers and developers in need of supplemental water supplies. Additionally, the Company has presented water supply proposals to private and municipal water providers in Nevada, Arizona and California for the sale of the Company's 70,000 acre feet of Paradise Water Supply, understanding that certain legal issues relating to interstate water transfers may exist. The Company continues to discuss water supply arrangements with private companies and municipal water providers to whom it has made proposals. The Company continues to identify and market its water to other private companies and municipal water providers.

The Company reviews its long-lived assets for impairment whenever events

or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. The Company's water assets are long-lived assets which will deliver water to customers for periods in excess of 100 years. Management believes the Company's impairment analysis for its Rangeview water supply incorporates a reasonable development horizon for the District's 24,000 acre Service Area. The Service Area is capable of supporting between 60,000 and 100,000 single family equivalent homes and will take between 30 and 40 years to fully develop. The Service Area is located at the edge of the Denver metropolitan area and a small portion of the property has already developed.

Key assumptions used in the impairment analysis are as follows: The Company is to receive revenues from two income sources: 1) a one time access fee charged to new water and wastewater customers known as tap fees; and 2) an annual fee based on the amount of water delivered to customers. The Company's established fees are the average of the three surrounding municipal water providers, which currently are \$10,500 per tap and \$2.25 per 1,000 gallons of water delivered. The Company's engineers have estimated the cost to construct the infrastructure needed to deliver the Rangeview water supply to customers within its Service Area and operating and maintenance costs of the water system. Based upon these key assumptions the Company's cash flow projections exceed the capitalized costs of the asset as of August 31, 2002.

The Company's impairment analysis for its Paradise water supply projects the development and sale of 70,000 acre feet of its Colorado River water supply over a 30 year period. The Company has two principal markets for the Paradise asset: one is users within the Denver metropolitan area; and second is users in the downstream states of Nevada and California. Infrastructure currently exists to transport Colorado River water to the Denver metropolitan area. The Company would seek to deliver its Paradise water to reservoirs which it owns as part of the Rangeview water supply and deliver Paradise water through its Rangeview water system. The key assumption used in the impairment analysis is the sale of water to users in the Denver market, based on the same terms as those used for the Rangeview asset, receiving revenues from tap fees, and annual water usage fees from delivered water.

The Company estimates that the cost to deliver the Paradise water to the Denver metropolitan area through an exchange of water for use of existing infrastructure owned by others may consume up to 50% of the Paradise water supply, thus allowing for the delivery of approximately 35,000 acre feet of Paradise water to the Rangeview water system. Based upon these key assumptions the Company's cash flow projections exceed the capitalized costs of the asset as of August 31, 2002.

Alternatively, the delivery of the Paradise asset to the downstream states' (i.e. Nevada and California) would be accomplished by using the Colorado River as the delivery mechanism. Use of the Colorado River as the delivery mechanism to the farthest deliverable point in southern California could result in water losses, primarily due to evaporation, of up to 50%. The key assumption used in the impairment analysis is the sale of water to users in the downstream states based on comparable wholesale water supply agreements generating approximately \$400 per acre foot per year. Based upon these assumptions for delivery of water to users in the downstream states, the Company's cash flow projections exceed the capitalized costs of the asset as of August 31, 2002.

At this time the Company is not able to determine the timing of water sales or the timing of development of the property within the District's Service Area. There can be no assurance that these sales can be made on terms acceptable to the Company or that development will occur. In the event water sales are not forthcoming or development of the property within the District's Service Area is delayed, the Company may sell additional portions of its profits interest, incur additional short or long-term debt obligations or seek to sell additional shares of common stock, preferred stock or stock purchase warrants as deemed necessary by the Company to generate operating capital. The Company's ability to ultimately realize its investment in its two primary water assets is dependent on its ability to successfully market the water. Under the provisions of the CAA, the other investors in the Rangeview project are to receive the first \$31,807,000 from the sale or other disposition of the Export Water Supply. The Company has agreed to pay the next \$4,000,000 in proceeds to LCH, Inc., a company affiliated with the Company's president. The next \$433,000 in proceeds are payable to the holders of the Company's Series B Preferred Stock. The Company retains 100% of the proceeds in excess of \$36,240,000 from the sale or other disposition of the Export Water Supply.

#### Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and our significant accounting policies are summarized in Note 2 to the accompanying consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, 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.

The Company has identified certain key accounting policies on which its 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, the Company's most critical accounting policies are those related to revenue recognition, water assets and other long-lived assets, depletion and depreciation 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

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 monthly based upon metered water deliveries to customers. The Company recognizes wastewater usage revenues monthly based upon metered wastewater deliveries to the Wastewater treatment facility. Costs of delivering water and processing wastewater are recognized as incurred.

#### Water Assets

The Company reviews its water assets and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the 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 market 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.

#### Depletion and Depreciation

The Company depletes its water assets basis on units produced divided by the total volume of water adjudicated in the water decrees. Water systems have an estimated useful life of 30 years and is depreciated based on a straight line depreciation method over the shorter of the estimated lives of the assets.

#### Results of Operations

During fiscal year 2002, the Company delivered approximately 54.5 million gallons of water generating water usage revenues from the sale of water to customers within the Company's Service Area of \$156,026, compared to the delivery of 40 million gallons of water generating \$96,754 for fiscal 2001. The Company incurred approximately \$13,896 in operating costs compared to \$11,181 for fiscal 2001. Also during fiscal year 2002, the Company processed approximately 3.7 million gallons of wastewater generating wastewater usage revenues of \$48,832 and incurred \$13,896 in wastewater operating costs. There were no revenues or costs related to wastewater operations in 2001. The Company recognized construction revenues of \$772,501 in fiscal year 2001 and incurred construction costs of \$488,984. There were no construction revenues or costs in 2002. The Company recognized revenues from construction based on percentage-of-completion methodology.

General, administrative and marketing expenses for fiscal year 2002 were \$233,131, or approximately \$1,900 higher than for fiscal year 2001 due primarily to higher professional fees. Interest income decreased to \$22,181 in fiscal year 2002, compared to \$41,464 for fiscal year 2001 due primarily to a decrease in the average balance in the Company's operating cash accounts. Interest expense decreased approximately \$37,000 to \$194,651 as compared to \$231,368 in fiscal year 2001 due primarily to a decrease in the prime lending rate. Net loss for fiscal year 2002 of \$245,147 was approximately \$193,000 higher than for fiscal year 2001, primarily due to recognition of construction revenues and related gross margin in 2001.

#### Liquidity and Capital Resources

The Company's working capital at August 31, 2002 was \$316,760. The Company believes that at August 31, 2002, it has sufficient working capital 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



of these assets 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.

Development of any of the water that the Company has, or is seeking to acquire, will require substantial capital investment by the Company. Any such additional capital for the development of the water is anticipated to be financed by the municipality purchasing such water, through the sale of water taps and water delivery charges. A water tap charge refers to a charge imposed by a municipality or in this case, the Company, to permit a water user access to a water delivery system (i.e. a single-family home's tap into the municipal water system), and a water delivery charge refers to a water user's monthly water bill, generally charged per 1,000 gallons of water consumed.

#### Operating Activities

During fiscal 2002, cash used in operating activities was approximately \$39,000, compared to approximately \$641,000 in fiscal 2001. Payments to contractors in fiscal 2001 accounted for the cash used in operations in fiscal 2001. Operating costs increased due to additional costs of operating the domestic water and wastewater systems, and it is anticipated that a similar level of cash will be used in the Company's general and administration functions during fiscal 2003.

In 1998, the Company entered into an agreement to provide water and wastewater service to a 400 acre development which now includes a 500-bed model juvenile detention facility ("Model Facility"). The Company designed, constructed, and now operates and maintains the water and wastewater systems that provide service to the Model Facility.

#### Investing Activities

Cash used in investing activities for fiscal 2002 was approximately \$109,000. Costs of approximately \$87,000 were capitalized to the Rangeview and Paradise Water Supply projects during fiscal year ended August 31, 2002. Cash used in investing activities for fiscal 2001 was approximately \$64,000. The Company capitalizes certain legal, engineering and permitting costs relating to the improvement of its water assets.

#### Financing Activities

In August 2001, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 6,455,000 shares of Series D Preferred Stock to the Company's CEO, Mr. Thomas Clark in exchange for 421,666 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. The Company sold 625,000 shares of the Company's Common Stock at \$.16 per share to two accredited investors. Proceeds to the Company were \$100,000. The Company 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.

Readers are cautioned that forward-looking statements contained in this Form 10-KSB should be read in conjunction with the Company's disclosure under the heading: "SAFE HARBOR STATEMENT UNDER THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" on page 2.

#### Impact of Recently Issued Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. SFAS No. 145 is not expected to have a material impact on the Company.

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. 145, which is effective for exit or disposal activities that are initiated after December 31, 2002, is not expected to have a material impact on the Company.

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## Independent Auditors' 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, 2002 and 2001, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2002 and 2001 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 11, 2002

PURE CYCLE CORPORATION  
BALANCE SHEETS

	August 31,	
ASSETS	2002	2001
Current assets:		
Cash and cash equivalents	\$ 287,720	\$ 435,660
Trade accounts receivable	50,919	33,255
Prepaid expenses and other current assets	--	11,259
Total current assets	338,639	480,174
Investment in water and systems:		
Rangeview water supply (Note 3)	13,566,777	13,483,425
Paradise water supply	5,491,423	5,487,433
Rangeview water system (Note 3)	148,441	126,611
Investment in water and systems	19,206,641	19,097,469
Accumulated depreciation & depletion		(4,958)
Total water and water systems	19,201,683	19,097,469
Note receivable, including accrued interest (Note 5)	385,716	369,806
Other assets	102,241	127,441
	\$ 20,028,279	\$ 20,074,890

## LIABILITIES AND STOCKHOLDERS' EQUITY

## Current liabilities:

Accounts payable	\$ 2,384	\$ --
------------------	----------	-------

Accrued liabilities		19,495	17,994
Total current liabilities	21,879	17,994	
Long-term debt - related parties, including accrued interest (Note 6)		4,713,270	4,518,619
Participating interests in Rangeview water supply (Note 3)		11,090,630	11,090,630
Stockholders' equity (Notes 8):			
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- 432,513 shares issued and outstanding		433	433
Series D - 6,455,000 shares issued and outstanding		6,455	6,455
Common stock, par value 1/3 of \$.01 per share; 135,000,000 shares authorized; 78,439,763 shares issued and outstanding		261,584	261,584
Additional paid-in capital	24,778,989	24,778,989	
Accumulated deficit	( 20,846,561)	(20,601,414)	
Total stockholders' equity	4,202,500	4,447,647	
	\$ 20,028,279	\$ 20,074,890	

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION  
STATEMENTS OF OPERATIONS

Years ended August 31,  
2002 2001

Water service revenue:			
Construction revenue (Note 4)	\$ --	\$ 772,501	
Water usage revenues	156,026	96,754	
Wastewater processing revenues	48,832	--	
	204,858	869,255	
Construction costs incurred (Note 4)	--	(488,984)	
Water service operating expense	(13,896)	(11,181)	
Wastewater service operating expense	(13,896)	--	
Gross margin	177,066	369,090	
General and administrative expense	(221,872)	(231,229)	
Depreciation expense	(4,220)	--	
Depletion expense	( 738)	--	
Operating income (loss)	(45,764)	137,861	
Other income (expense):			
Interest income	22,181	41,464	
Interest expense:			
Related parties	(194,651)	(231,368)	
Amortization of warrants	(25,200)	--	
Other income	2,287	--	
Total other income (expense)	(195,383)	(189,904)	
Net loss	\$ (245,147)	\$ (52,043)	
Basic and diluted net loss per common share	\$ *	\$ *	
Weighted average common shares outstanding basic and diluted	78,439,763	78,439,763	

\* Less than \$.01 per share

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION  
 STATEMENTS OF STOCKHOLDERS' EQUITY  
 Years Ended August 31, 2002 and 2001

	Preferred Stock		Common Stock		
	Shares	Amount	Shares	Amount	
Balance at August 31, 2000		8,065,847	\$8,067	78,439,763	\$261,584
Preferred Stock issued in Exchanges, net (Note 8)		421,666	421	--	--
Common Stock issued from treasury stock (Note 8)		--	--	--	--
Extension of warrants					
Net loss		--	--	--	--
Balance at August 31, 2001		8,487,513	\$8,488	78,439,763	\$261,584
Net loss		--	--	--	--
Balance at August 31, 2002		8,487,513	\$8,488	78,439,763	\$261,584

	Treasury Stock	
	Shares	Amount
Balance at August 31, 2000	(903,334)	(135,500)
Preferred Stock issued in Exchanges, net (Note 8)	(421,666)	(69,500)
Common Stock issued from treasury stock (Note 8)	1,325,000	205,000
Extension of warrants		
Net loss	--	--
Balance at August 31, 2001		
Net loss	--	--
Balance at August 31, 2002	\$ 0	\$ 0

	Paid-in Capital	Accumulated Deficit	Additional Stockholders' Equity	Total
Balance at August 31, 2000		\$24,583,910	\$ (20,549,371)	\$4,168,690
Preferred Stock issued in Exchanges, net (Note 8)		69,079	--	--
Common Stock Issued from treasury stock (Note 8)		--	--	205,000
Extension of warrants		126,000	--	126,000
Net loss		--	(52,043)	(52,043)
Balance at August 31, 2001		\$24,778,989	\$ (20,601,414)	\$4,447,647
Net loss		--	(245,147)	(245,147)
Balance at August 31, 2002		\$24,778,989	\$ (20,846,561)	\$4,202,500

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION  
 STATEMENTS OF CASH FLOWS

Years ended August 31,

2002 2001

Cash flows from operating activities:			
Net loss	\$ (245,147)		\$ ( 52,043)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	4,220		--
Depletion expense		738	--
Increase in long-term debt - related parties, including accrued interest	194,651		231,368
Changes in operating assets and liabilities:			
Trade accounts receivable	(17,664)	(14,636)	
Prepaid expenses and other assets	36,459	--	
Billings in excess of costs and estimated earnings			-- (772,500)
Accounts payable and accrued liabilities	3,885		(10,653)
Other non-current liabilities	--	--	
Net cash used in operating activities	(22,858)	(641,108)	
Cash used in investing activities-			
Investments in water supply	(87,342)		(63,856)
Investments in water systems	(21,830)	--	
Increase in accrued interest on note receivable		(15,910)	(22,644)
Net cash used in investing activities		(125,082)	(63,856)
Cash flows from financing activities-			
Proceeds from sale of equity instruments	--		319,500
Net decrease in cash and cash equivalents		(147,940)	(385,464)
Cash and cash equivalents beginning of year	435,660		821,124
Cash and cash equivalents end of year	\$ 287,720		\$ 435,660

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2002 and 2001

NOTE 1 - ORGANIZATION AND BUSINESS

Pure Cycle Corporation owns certain water assets and is providing water and wastewater services to customers located in the Denver metropolitan 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 southwest.

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, 2002, 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 volumes processed, as wastewater is received and processed. Costs of delivering water and providing wastewater service to customers are recognized as incurred.

##### Use of estimates

The preparation of financial statements in conformity with 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 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.

#### PURE CYCLE CORPORATION NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Long lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the 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 market 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, 2002.

##### Depletion and Depreciation of water assets

The Company depletes its water assets basis on units produced divided by the total volume of water adjudicated in the water decrees. Water distribution systems have an estimated useful life of 30 years and are depreciated based on a straight line depreciation method over the estimated lives of the assets.

##### Water and wastewater systems

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

##### Stock-Based Compensation

As allowed by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), the Company continues to measure compensation costs for these plans using the intrinsic value method of accounting as prescribed in Accounting Pronouncement Bulletin Opinion No.

25, Accounting for Stock Issued to Employees (APB 25). The pro forma disclosure of net loss and loss per share required by SFAS 123 are included in Note 6.

#### 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 65,746,960 common share equivalents outstanding as of August 31, 2002 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 1988, the Company initiated the purchase of the Rangeview water assets. From 1988 through 2002, 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 \$1,528,616.

#### PURE CYCLE CORPORATION NOTES TO FINANCIAL STATEMENTS

#### NOTE 3 - RANGEVIEW WATER SUPPLY AND SYSTEM (continued)

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 totaling 12% of gross revenues to the State Land Board, 100% of the District's wastewater system development charges and 90% of the District's wastewater usage charges. The Company delivered approximately 54.5 and 40 million gallons of water to customers in the Service Area in fiscal 2002 and 2001, respectively. The Company processed approximately 3.7 million gallons of wastewater from customers within its Service Area.

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 the first approximately \$31,807,000 from the proceeds of a sale or other disposition of the Export Water Supply. 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 on a pari passu basis for the first \$31,807,000. After payment of the \$31,807,000 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.

The Rangeview water supply is depleted on the basis of units produced, based on the volumes of water expected to be produced. The Rangeview water system has an estimated useful life of 30 years and is depreciated based on a straight line depreciation method over the shorter of the estimated lives of the assets.

During fiscal 2002 and 2001, the Company had revenues from a single customer that accounted for 76% and 85% of total revenue, respectively.

#### NOTE 4 - NOTE RECEIVABLE

In 1995, the Company extended a line of credit to 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, 2002. The balance of the note receivable at August 31, 2002 was \$385,716, including accrued interest. The Company intends to extend the due date to December 31, 2003. Accordingly, the note has been classified as non-current.

#### PURE CYCLE CORPORATION NOTES TO FINANCIAL STATEMENTS

#### NOTE 5 - LONG-TERM DEBT

Long-term debt, including accrued interest, at August 31, 2002 and 2001 is comprised of the following:

	2002	2001
Notes payable, including accrued interest to six related parties, due August 2007, interest at 10.25%, unsecured	\$ 484,876	\$ 455,063
Notes payable, including accrued interest to five related parties, due August 2007, interest at 10.25%, unsecured, net of unamortized discount of \$9,000 and \$18,000, respectively	542,809	506,934
Note payable, to CEO, due October 2007, non-interest bearing, unsecured	26,542	26,542
Notes payable, including accrued interest, to CEO due September 2007, interest at 8.36% to 9.01%, unsecured	487,581	466,221
Notes payable, including accrued interest, to related party, due October, 2007, interest at the prime rate plus 3%, secured by shares of the Company's common stock owned by the President	2,371,733	2,296,326
Notes payable, including accrued interest, to a related party, due August 2007, interest ranging from 7.18% to 8.04%, unsecured	799,729	767,533
Total long-term debt	\$4,713,270	\$4,518,619

Aggregate maturities of long-term debt are as follows:

Year Ending August 31,	Amount
2007	1,853,956
thereafter	2,859,314
Total	\$ 4,713,270

In 1996 and 1997, the Company entered into loan agreements with eleven related party investors. The loan balances total \$1,009,684 at August 31, 2002, the loans are unsecured, and bear interest at the rate of 10.25%. In connection with the loan agreements, the Company issued warrants to purchase 2,100,000 shares of the Company's common stock at \$.18 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 warrant extension are being amortized over the revised term of the debt. See further discussion of the warrant in Note 8.

As of August 31, 2002, the CEO of the Company has pledged a total of 20,000,000 shares of the Company's common stock from his personal holdings as collateral on certain of the above notes payable.



NOTE 6 - STOCKHOLDERS' EQUITY

Preferred and Common Stock

In August 2001, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 6,455,000 shares of Series D Preferred Stock to the Company's CEO, Mr. Thomas Clark in exchange for 421,666 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. None of the Series D Convertible Preferred Stock pay dividends. The Company subsequently 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.

All the shares were issued under Section 4(2) of the Securities Act of 1933.

PURE CYCLE CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - STOCKHOLDERS' EQUITY (continued)

Stock Options

Pursuant to the Company's Equity Incentive Plan approved by stockholders in June of 1992, the Company had granted Mr. Fletcher Byrom, Ms. Margaret Hansson, Mr. George Middlemas, and Mr. Mark Harding options to purchase 7,000,000, 8,000,000, 1,000,000, and 7,000,000 shares of common stock respectively at an exercise price of \$.18 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 2000, the Board granted Mr. Harding options pursuant to employment arrangements outside the Equity Incentive Plan to purchase an additional 3,000,000 shares of common stock at an exercise price of \$.18 per share of which 2,250,000 vested immediately and 250,000 shares vest on each anniversary date of the grant over the next three years. Mr. Harding's new options also expire in August 2007.

The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for stock options granted to key employees under the Equity Incentive Plan. Had compensation costs for the Company's two stock-based compensation plans been determined based on the fair market value at the grant dates for awards and the extension of the expiration dates of certain options under those plans consistent with the method prescribed in FASB Statement 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below for the years ended August 31, 2002 and 2001:

Net loss:	2002	2001
As Reported	\$( 259,910)	( 52,043)
Pro forma	( --)	(1,529,451)
Loss per share:		
As Reported	*	*
Pro forma	*	(.02)

\* Less than \$.01 per share

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal year 2001: no dividend yield; annualized expected volatility of 101%; and a weighted average risk-free interest rate of 4.65%. No options were granted in fiscal year 2002.

A summary of the status of the Company's Equity Incentive Plan and other compensatory options as of August 31, 2002 and 2001, and changes during the years then ended is presented below:

Fixed options	2002	2001	
	Weighted average Shares	Weighted average exercise price	Weighted average Shares exercise price
Outstanding at beginning of year	26,000,000	\$.18	23,000,000 \$.18
Granted	--	--	3,000,000 .18
Outstanding at end of year	26,000,000	\$.18	26,000,000 \$.18

Options exercisable at year end	25,550,000	\$ .18	25,250,000	\$ .18
Weighted average fair value of options granted during the year		--		\$ .06

PURE CYCLE CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - STOCKHOLDERS' EQUITY (continued)

The following table summarizes information about the Equity Incentive Plan and other compensatory options outstanding at August 31, 2002:

Options Outstanding		Options Exercisable			
Range of exercise Price	Weighted average Number outstanding	Weighted remaining contractual life	Weighted average exercise Price	Number exercisable	Weighted average remaining contractual life price
.18	25,500,000	6	.18	25,500,000	6

No options were exercised during the years ended August 31, 2002 and 2001.

Warrants

In addition to the warrants discussed in Note 6, the Company from 1990 through 1996 issued warrants to purchase 22,303,000 shares of the Company's stock at \$.18 per share in connection with the sale of profits interests in the Rangeview WCA, which remain outstanding as of August 31, 2002. In 1996, the WCA was amended and retitled to the Comprehensive Amendment Agreement ("CAA") and all interests held in the WCA were subsequently converted into participating interests in the CAA. The warrants expire 6 months after the payment of the participating interests in the CAA.

Certain related parties, which hold notes payable from the Company which aggregate a total of \$1,009,684, as of August 31, 2002, extended the maturity date of notes from August 2002 to April 2007. In connection with the extension of the maturity of the notes, the expiration date of the warrants was extended to April 2007. The \$126,000 recorded in connection with extension of the warrants' expiration date is the fair value of the warrants as of August 31, 2002, 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 April 2007 as the imputed consideration relating to the extension of the debt terms.

No warrants were exercised during the years ended August 31, 2002 and 2001.

NOTE 7 - SIGNIFICANT CUSTOMERS

The Company had accounts receivable from two significant customers totaling approximately \$158,600 and \$29,300, respectively, as of August 31, 2002 and \$697,000 and \$24,000, respectively, as of August 31, 2001. The same customers accounted for approximately 76% and 14%, respectively of the Company's revenue during the year ended August 31, 2002 and approximately 80% and 3%, respectively of the Company's revenue during the year ended August 31, 2001.

NOTE 8 - 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, 2002 and 2001 are presented below.

	2002	2001
Deferred tax assets:		
Net operating loss carry forwards	\$ 2,423,000	\$ 2,355,000
Less valuation allowance	(2,423,000)	(2,355,000)
Net deferred tax asset	\$ --	\$ --

The valuation allowance for deferred tax assets as of August 31, 2002 was \$2,423,000. The net change in the valuation allowance for the year ended August 31, 2002 was a net increase of \$68,000, primarily attributable to the net operating loss incurred during the year and difference in amortization. The deferred tax asset at August 31, 2002, for which a valuation allowance has been recorded, will be recognized when realization is more likely than not.

PURE CYCLE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - INCOME TAXES (continued)

At August 31, 2002, the Company has net operating loss carry forwards for federal income tax purposes of approximately \$6,228,000, which are available to offset future federal taxable income, if any, through fiscal 2022.

NOTE 9 - 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 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, 2002 and 2001 is as follows:

	2002		2001			
	Water Construction	Service	Water Total Construction	Service	Total	
Revenues \$	--	\$204,858	\$204,858	\$ 772,501	\$96,754	\$ 869,255
Gross margin	--	177,066	177,066	283,517	85,573	369,090
Total assets	--	20,028,279	20,028,279	--	20,074,890	20,074,890
Capital expenditures	--	109,172	109,172	--	63,856	63,856

NOTE 10 - Related party transactions

During the years ended August 31, 2002 and 2001, the Company has occupied office space from a related party at no cost to the Company.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following are the officers and directors of the Company as of August 31, 2002:

Name	Age	Position(s) with the Company
Harrison H. Augur	60	Chairman
Margaret S. Hansson . . . .	78	Director, Vice President
Fletcher L. Byrom . . . .	84	Director
Thomas P. Clark . . . .	66	Director, CEO
George M. Middlemas . . . .	56	Director
Richard L. Guido . . . .	58	Director
Mark W. Harding . . . .	39	President, CFO

HARRISON H. AUGUR

Mr. Augur was elected Chairman of the Board of Directors 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 in 1964, a LLB degree from Columbia University School of Law, and his LLM degree from New York University School of Law in 1987.

MARGARET S. HANSSON

Ms. Hansson has been a Director of the Company since April 1977, Vice President since 1992, and Chairman from 1983 to 2001, and was the Chief

Executive Officer of the Company 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. Ms. Hansson received her Bachelor of Arts degree from Antioch College.

THOMAS P. CLARK

Thomas P. Clark was appointed Chief Executive Officer of the Company in April 2001. Prior to his appointment as Chief Executive Officer, Mr. Clark served as President and Treasurer of the Company from 1987 to April 2001. Mr. Clark is primarily involved in the management of the Company. His 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 received his Bachelor of Science degree in Geology and Physics from Brigham Young University, Provo, Utah.

MARK W. HARDING

Mark W. Harding joined the Company in February 1990 as Corporate Secretary and Chief Financial Officer. He was appointed President of the Company in April 2001. He brings a background in public finance and management consulting experience. From 1988 to 1990, Mr. Harding worked for Price Waterhouse in management consulting services where he assisted clients in public finance services and other investment banking related services. Mr. Harding has a B.S. Degree in Computer Science and a Masters in Business Administration in Finance from the University of Denver.

FLETCHER L. BYROM

Fletcher L. Byrom has been a Director of the Company since April 22, 1988. He is a retired Chairman (1970-1982) and Chief Executive Officer (1967-1982) of Koppers Company, Inc. Mr. Byrom presently serves in the following positions: Manager Micasu Tingsten LLC, Micasu Farms LLC, and President of Micasu Corporation and Micasu Charitable Foundation Inc.

GEORGE M. MIDDLEMAS

George M. Middlemas has been a Director of the Company since April 1993. Mr. Middlemas has been a general partner with the Apex Investment Partners since 1991, a diversified venture capital management group. From 1985 to 1991, Mr. Middlemas was Senior Vice President of Inco Venture Capital Management, primarily involved in venture capital investments for Inco. 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 Online Resources & Communications Corporation, Tut Systems, Data Critical Corporation., and Pennsylvania State University - Library Development Board. Mr. Middlemas received Bachelor degrees 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.

RICHARD L. GUIDO

Mr. Guido has been a Director of the Company since July 1996. Mr. Guido has been with Inco since 1980, and is currently 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.

None of the above persons is related to any other officer or director of the Company. All directors are elected for one-year terms which expire at the annual meeting of stockholders or until their successors are elected and qualified. The Company's officers are elected annually by the board of directors and hold office until their successors are elected and qualified.

Section 16 (a) Beneficial Ownership Reporting Compliance

The Company's directors and executive officers and persons who are beneficial owners of more than 10% of the Company's Common Stock are required to file reports of their holdings and transactions in Common Stock with the Securities and Exchange Commission and furnish the Company with such reports. Based solely upon its review of the copies the Company has received or upon written representations from these persons, the Company believes that, as of November 16, 2002 all of the Company's directors, executive officers, and 10%

beneficial owners had complied with the applicable Section 16 (a) filing requirements.

Item 10. Executive Compensation

Name and Principal Position	Annual Compensation		
	Other	Fiscal Year	Annual Compensation
Thomas P. Clark CEO	2001	60,000	0
	2000	60,000	0
	1999	60,000	0
Mark W. Harding President, CFO	2001	80,000	0
	2000	80,000	0
	1999	80,000	0

Directors do not receive any compensation for serving on the Board.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of November 16, 2002, the beneficial ownership of the Company's issued and outstanding Common Stock, Series A-1 Preferred Stock, Series B Preferred Stock, and Series D Preferred Stock, by each person who owns of record (or is known by the Company to own beneficially) 5% or more of each such class of stock, by each director of the Company, each executive officer and by all directors and executive officers as a group. Except as otherwise indicated, the Company believes that each of the beneficial owners of the stock listed has sole investment and voting power with respect to such shares, based on information provided by such holders.

Common Stock

Name and Address of Beneficial Owner	Number of Common Stock Shares	Percent of Outstanding Common Shares
Thomas P. Clark 8451 Delaware St Thornton, CO 80260	27,264,854	34.8% (18)
George Middlemas 225 W. Washington, #1500 Chicago, IL 60606	1,333,333	1.7% (1) (11)
Richard L. Guido Inco Securities Corporation 145 King St. West, #1500 Toronto, Ontario Canada M5H4B7	0	0%
Margaret S. Hansson 2220 Norwood Avenue Boulder, Colorado 80304	8,246,000	9.5% (2)
Fletcher L. Byrom 305 Village Heights Dr. #328 State College, PA 16801	7,100,000	8.3% (3)
Mark W. Harding 8451 Delaware St Thornton, CO 80260	9,710,000	11.0% (4)
INCO Securities Corporation 145 King St. West, #1500 Toronto, Ontario Canada M5H4B7	4,700,000	5.7% (5)
Apex Investment Fund II L.P. 225 W. Washington, #1500 Chicago, IL 60606	17,087,833	19.2% (6) (11)
Environmental Venture Fund, L.P. 233 S. Wacker Drive, Suite 9600 Chicago, Illinois 60606	6,278,181 (11)	7.7% (7)
Environmental Private Equity Fund II, L.P.	7,142,320 (16)	8.6% (13)

233 S. Wacker Drive,  
Suite 9600  
Chicago, Illinois 60606

The Productivity Fund II, L.P. 4,781,846 6.0% (8)  
233 S. Wacker Drive,  
Suite 9600  
Chicago, Illinois 60606

Proactive Partners L.P. 3,579,052 4.4% (13)  
50 Osgood Place, Penthouse  
San Francisco, California 94133

All Officers and Directors as a group (6 persons) 53,654,187 48.6% (12)  
(18)

Preferred Stock

Name and Address of Beneficial Owner	Number of Series A Preferred Shares	Percentage	Number of Series B Outstanding Shares	Percentage	Outstanding Shares
Thomas P. Clark 8451 Delaware St Thornton, CO 80260			346,000	80.0%	(14)
Apex Investment Fund II L.P. 225 W. Washington, #1500 Chicago, IL 60606	408,000	25.5%			
Environmental Private Equity Fund II L.P. 233 S. Wacker Drive, Suite 9600 Chicago, Illinois 60606	600,000			37.5%	
Proactive Partners L.P. 50 Osgood Place, Penthouse San Francisco, California 94133	500,000			31.5%	
LC Holdings, Inc. 8451 Delaware St Thornton, CO 80260	432,513			100.0%	
LCH, Inc. 8451 Delaware St Thornton, CO 80260	86,503			20.0%	(15)

Name and Address of Beneficial Owner	Number of Series D Preferred Shares	Percent of Outstanding Shares
Thomas P. Clark 8451 Delaware St Thornton, CO 80260	6,455,000	100.0%(18)

- (1) Includes 1,000,000 shares purchasable by Mr. Middlemas under currently exercisable options.
- (2) Includes 8,000,000 shares purchasable by Ms. Hansson under currently exercisable options.
- (3) Includes 2,333,334 shares purchasable under a currently exercisable option by Mr. Fletcher L. Byrom Jr., 2,333,333 shares purchasable under a currently exercisable option by Susan Byrom Evans, and 2,333,333 shares purchasable under a currently exercisable option by Carol Byrom Conrad.
- (4) Includes 9,500,000 shares purchasable by Mr. Harding under a currently exercisable option.
- (5) Includes 4,700,000 shares purchasable by Inco Securities Corporation ("Inco") under currently exercisable warrants.

- (6) Includes 8,506,198 shares purchasable by Apex Investment Fund II, L.P. ("Apex") under a currently exercisable warrants.
- (7) Includes 2,596,620 shares purchasable by Environmental Venture Fund, L.P. ("EVFund") under a currently exercisable warrants.
- (8) Includes 1,776,166 shares purchasable by Productivity Fund II, L.P. ("PFund") under currently exercisable warrants.
- (9) Intentionally omitted.
- (10) Intentionally omitted.
- (11) Each of the Apex, EVFund, PFund, and EPFund (the "Apex Partnerships") is controlled through one or more partnerships. The persons who have or share control of such stockholders after looking through one or more intermediate 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 EVFund are: FAC; F&G Associates ("F&G"); William D. Ruckelshaus Associates, a Limited Partnership ("WDRA"); and Banc America Robertson, Stephens & Co. ("BARS"). The ultimate general partners of PFund are FAC and Bret R. Maxwell ("Maxwell"). The ultimate general partners of EPFund are FAC, Maxwell, BA, RS, Argentum Environmental Corporation ("AEC") and Schneur Z. Genack, Inc. ("SZG").

The business address of FAC, Stellar, Johnson, Middlemas, and Maxwell is 233 S. Wacker Drive, Suite 9600. Chicago Illinois 60606. The business address of Renze and Chartwell is 20 N Wacker Dr., Suite 2200, Chicago IL 60606. Each of AEC and SZG maintains its business address c/o The Argentum Group ("TAG"), 405 Lexington Avenue, 54th Floor New York, New York 10174. The persons who take actions on behalf of AEC and SZG with respect to their functioning as ultimate general partners of EPEF are Schneur Z. Genack ("Genack"), Daniel Raynor ("Raynor") and Walter H. Barandiaran ("Barandiaran"). Each of Raynor and Barandiaran is principally employed as an executive of TAG and maintains his business address at the TAG address. TAG's principal business is merchant banking. SZG is principally employed as a private investor and maintains his business address at 18 East 48th Street, Suite 1800, New York, New York 10017. The business address of F&G and Harvey G. Felsen ("Felsen") who takes actions on behalf of F&G with respect to its functioning as a ultimate general partner of EVFund, is 123 Grove Avenue, Suite 118, Cedarhurst, New York 11516. WDRA and Paul B. Goodrich the person who takes action on behalf of WDRA with respect to its functions on behalf of WDRA with respect to its functioning as general partner of EVFund, maintains its business address at 1201 Third Avenue, 39th Floor, Seattle, Washington 98101. BARS maintains its business address at One Embarcadero Center, San Francisco, California 94111. BARS maintains its business address at 555 California St., San Francisco, CA 94111. The person who takes actions on behalf of BARS with respect to its functioning as an ultimate general partner of EVF and EPEF is Charles R. Hamilton ("Hamilton"). Hamilton is principally employed as a partner is BARS and maintains his principal business address at BARS.

By reason of its status as a general partner or ultimate general partner of each of Apex Partnerships, FAC may be deemed to be the indirect beneficial owner of 35,290,180 shares of Common Stock, or 36.3% of such shares. By reason of his status as the majority stockholder of FAC, F. Oliver Nicklin 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 and Renze) may be deemed to be the indirect beneficial owners of 17,087,833 shares of Common Stock, or 19.2% of such shares. When these shares are combined with his personal holdings of 333,333 shares and his currently exercisable option to purchase 1,000,000 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 18,421,166 shares of Common Stock, or 20.4% of such shares.

By reason of his status as an ultimate general partner of PFund and EPFund, Maxwell may be deemed to be the indirect beneficial owner of 11,924,166 shares of Common Stock, or 14.2% of such shares.

By reason of F&G's and WDRA's status as an ultimate general partners of EVFund, F&G, WDRA and their respective controlling persons may be deemed to be the indirect beneficial owners of 6,278,181 shares of Common Stock, or 7.7% of such shares. By reason of AEC's and SZG's status as ultimate general partners of EPFund, AEC, SZG and their and their controlling persons may be deemed to be the indirect beneficial owners of 7,142,320 shares of Common Stock, or 8.7% of such shares. By reason of Genack's interest in F&G, AEC and SZG, he may be deemed to be the indirect beneficial owner of 13,420,501 shares of Common Stock, or 15.8% of such shares.

By reason of BARS's status as a general partner of EVFund and an ultimate

general partner of EPFund, BARS and its controlling persons may be deemed to be the indirect beneficial owners of 13,420,501 shares of Common Stock, or 15.8% of such shares.

Each of the Apex Partnerships disclaims beneficial ownership of all shares of Common Stock described herein except those shares that are owned by that entity directly. The Company understands that each of the other persons named as an officer, director, partner or other affiliate of any Apex Partnership herein disclaims beneficial ownership of all the shares of Common Stock described herein, except for Middlemas with respect to the option to purchase 1,000,000 shares held by him.

Each of the Apex Partnerships 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 or those affiliate of any of them, in each case within the meaning of Section 13(d) (3) of the 1934 Act.

- (12) Includes 25,500,000, shares purchasable by directors and officers under currently exercisable options.
- (13) Includes the conversion of 1,600,000 shares of Series A-1 Preferred Stock to Common Stock. Apex Investment Fund II, L.P., owning 408,000 shares of Series A Convertible Preferred Stock which are currently convertible into 2,266,685 shares of Common Stock, The Environmental Private Equity Fund II, L.P., owning 600,000 shares of Series A Convertible Preferred Stock which are currently convertible into 3,333,360 shares of Common Stock, and Proactive Partners, L.P., owning 500,000 shares of Series A-1 Convertible Preferred Stock which are currently convertible to 2,777,800 shares of Common Stock.
- (14) Includes 346,010 shares of Series B Preferred Stock which Mr. Clark. the Company's president, may be deemed to hold beneficially by reason of his ownership of 80% of the common stock of LC Holdings, Inc., the owner of 100% of the Series B Preferred Stock.
- (15) Includes 86,503 shares of Series B Preferred Stock which LCH, Inc. may be deemed to hold beneficially by reason of its ownership of 20% of the common stock of LC Holdings, Inc., the owner of 100% of the Series B Preferred Stock.
- (16) Includes 322,264 shares purchasable by the Environmental Private Equity Fund under a currently exercisable warrant.
- (17) Includes 801,252 shares purchasable by Proactive Partners, L.P. under a currently exercisable warrant.
- (18) Includes 6,455,000 shares of Series D Preferred Stock, which Mr. Clark, the Company's CEO owns which are convertible to 6,455,000 shares of common stock if the Company has sufficient authorized but unissued shares of common stock.

#### Item 12. Certain Relationships and Related Transactions

From time to time since December 6, 1987, Thomas P. Clark, a Director and President of the Company, loaned funds to the Company to cover operating expenses. These funds have been treated by the Company as unsecured debt, and the promissory notes with interest at 8.36% to 9.01% per annum, issued to Mr. Clark on various dates are payable October 15, 2007. To date, Mr. Clark has loaned the Company \$310,720 of which \$43,350 has been repaid, leaving a balance of \$267,370. As of August 31, 2002, accrued interest on the Notes totaled \$246,752. All loans were made on terms determined by the board members, other than Mr. Clark, to be at market rates.

Additionally, LCH, Inc., a Delaware corporation which owns 20% of LC Holdings, Inc. and is thereby affiliated with Mr. Clark, who owns 80% of LC Holdings, Inc., loaned the Company a total of \$950,000 between November, 1988 and February, 1989. These funds were represented by two Demand Promissory Notes (the "Notes") with interest at a rate equal to the rate announced from time to time by Mellon Bank, Pittsburgh, Pennsylvania as its "prime rate" plus 300 basis points from the date of the first advance thereunder until maturity, payable quarterly beginning on the first day of April, 1989 and continuing thereafter on the first day of each subsequent calendar quarter. No payments were made on the Notes. An April 25, 1989 Assumption of Obligations Agreement assigned the entire debt of \$950,000 to Rangeview Development Corp., which was a wholly-owned subsidiary of the Company until it was dissolved in fiscal 1997 and further assigned \$750,000 of that \$950,000 to Rangeview Company, L.P a limited partnership in which LCH held a 45% interest and Rangeview Development Corporation held a 55% interest. In February of 1991, LCH transferred its interest in Rangeview Company, L.P. to the Company in exchange for a \$4,000,000 profits interest in the Rangeview Project paid subsequent to the first \$31,807,000 profits interest allocated to other investors. In connection with the Settlement Agreement, LCH consented to be paid its \$4,000,000 profits interest from the sale or



other disposition of the Export Water subsequent to payment of \$31,807,000 owed under the CAA. During fiscal year ended August 31, 1998, the Company reached an agreement with LCH, Inc. to defer payment of the principal amount of the Notes, plus interest until October 15, 2007. No additional consideration is due to LCH, Inc. for the deferral. The board members, other than Mr. Clark, determined the transactions are at fair market value taking into consideration the risk to LCH, Inc.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

3(a) Certificate of Incorporation of Registrant - Incorporated by reference from Exhibit 4'A to Registration Statement No. 2-65226.

3(a).1 Certificate of Amendment to Certificate of Incorporation, filed August 31, 1987 - Incorporated by reference from Annual Report on Form 10-K for the fiscal year ended August 31, 1987.

3(a).2 Certificate of Amendment to Certificate of Incorporation, filed May 27, 1988. Incorporated by reference from Proxy Statement for the Annual Meeting held April 22, 1988.

3(a).4 Certificate of Amendment to Certificate of Incorporation filed April 13, 1993. Incorporated by reference from Proxy Statement for Annual Meeting held April 2, 1993.

3(a).6 Certificate of Amendment to Certificate of Incorporation filed May 25, 1994 (Series A). Incorporated by reference from Annual Report on Form 10-K for the fiscal year ended August 31, 1994.

3(a).7 Certificate of Amendment to Certificate of Incorporation filed August 31, 1994 (Series B). Incorporated by reference from Annual Report on Form 10-K for the fiscal year ended August 31, 1994

3(a).8 Certificate of Designation for the Series A-1 Preferred Stock Filed July 21, 1998.\*

3(a).9 Certificate of Amendment to Certificate of Incorporation filed September 2, 1999 (Series C).\*

3(a).10 Certificate of Amendment to Certificate of Incorporation filed November 5, 1999 (Series C1), Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1999.

3(a).11 Certificate of Amendment to Certificate of Incorporation filed November 5, 1999 (Series C2), Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 1999.

3(a).12 Certificate of Amendment to Certificate of Incorporation filed August 29, 2000 (Series C3). Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 2000

3(a).13 Certificate of Amendment to Certificate of Incorporation files October 16, 2001 (Series D).. Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended August 31, 2001

3(b) Bylaws of Registrant - Incorporated by reference from Exhibit 4.c to Registration Statement No. 2-62483.

3(b).1 Amendment to Bylaws effective April 22, 1988. Incorporated by reference from Annual Report on Form 10-K for the fiscal year ended August 31, 1989.

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

10.2 Equity Incentive Plan. Incorporated by references from Proxy Statement for Annual Meeting held April 2, 1993.

10(h).2 Service Agreement, dated April 19, 1996, by and between the Company, and the District. \*\*

10(h).3 Wastewater Service Agreement, dated January 22, 1998, by and between the Company, and the District.\*\*

10(h).4 Comprehensive Amendment Agreement No. 1, dated April 11, 1996, by and among ISC, the Company, the Bondholders, Gregory M. Morey, Newell Augur, Jr., Bill Peterson, Stuart Sundlun, Alan C. Stormo, Beverlee A. Beardslee, Bradley Kent Beardslee, Robert Douglas Beardslee, Asra Corporation, International Properties, Inc., and the Land Board. \*\*



CERTIFICATION

I, Thomas P. Clark, certify that:

1. I have reviewed this annual report on Form 10-KSB of PureCycle Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 29, 2002  
/s/ Thomas P. Clark  
Chief Executive Officer

CERTIFICATION

I, Mark W. Harding, certify that:

1. I have reviewed this annual report on Form 10-KSB of PureCycle Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the

disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date November 29, 2002

/s/ Mark W. Harding  
President, Chief Financial Officer

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

In connection with the Annual Report of PureCycle Corporation (the "Company"), on Form 10-KSB for the period ending August 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Clark, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. - 1350, as adopted pursuant to ? 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Thomas P. Clark  
Chief Executive Officer

November 29, 2002

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

In connection with the Annual Report of PureCycle Corporation (the "Company"), on Form 10-KSB for the period ending August 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Harding, President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. - 1350, as adopted pursuant to - 906 of the Sarbanes - Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Mark W. Harding  
Chief Financial Officer

November 29, 2002