

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

Form 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended: **November 30, 2006**

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

For the transition period from _____ to _____

Commission file number **0-8814**

PURE CYCLE CORPORATION

(Exact name of small business issuer as specified in its charter)

Delaware
(State of incorporation)

84-0705083
(I.R.S. Employer
Identification Number)

8451 Delaware St., Thornton, CO
(Address of principal executive offices)

80260
(Zip Code)

(303) 292-3456
Registrant's telephone number

N/A
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company filer (as defined in rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 12, 2007:

Common stock, 1/3 of \$.01 par value
(Class)

18,368,807
(Number of Shares)

Explanatory Note

This Form 10-Q/A amends our report on Form 10-Q for the three months ended November 30, 2006, originally filed with the Securities and Exchange Commission (the "Commission") on January 16, 2007. This amendment is being made to reflect the correction of errors in our accounting for the Asset Purchase Agreement (the "Arkansas River Agreement") entered into with High Plains A&M LLC ("HP A&M") on August 31, 2006. These errors were discovered following our request for concurrence from the Staff of the Commission on certain items related to the Arkansas River Agreement.

We are restating our previously reported financial information to restate the liability "*Tap Participation Fees payable to HP A&M*," adjust the values, and associated depreciation expense, assigned to the assets acquired from HP A&M, and recognize imputed interest expense on the *Tap Participation Fees payable to HP A&M*.

The accompanying balance sheet, statement of stockholders' equity and notes to the financial statements, reflect these changes as if we had initially accounted for the Arkansas River Agreement as described below.

Per our discussions with the Staff of the Commission it was determined that we should not have accounted for the *Tap Participation Fees payable to HP A&M* as contingent

consideration as defined in Statement of Financial Accounting Standards No. 141 *Business Combinations (as amended)* ("SFAS 141"), nor should we have valued the *Tap Participation Fees payable to HP A&M* using a residual value method. Instead, we should have valued the Tap Participation Fees using a discounted cash flow method and then allocated the value of the consideration paid (being the Tap Participation Fees payable to HP A&M and the equity issued to HP A&M) to the acquired assets based on each individual asset's relative fair value. Based on these discussions, we completed a net present value analysis of the Tap Participation Fees payable to HP A&M utilizing historical housing and population growth information for certain master planned communities in the Denver, Colorado metropolitan area projected over an estimated development period and applied to future water tap fees that were estimated using historical water tap fees. As a result, the account *Tap Participation Fees payable to HP A&M* has been reduced to approximately \$46.8 million as of November 30, 2006, which is the estimated fair value of the Tap Participation Fees payable to HP A&M at the date of acquisition plus imputed interest of approximately \$1.1 million. The valuation of the Tap Participation Fees payable to HP A&M is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond our control.

Effective September 1, 2006, we began imputing interest on the unpaid Tap Participation Fees using an effective interest method. During the three months ended November 30, 2006 we imputed approximately \$1.1 million of interest. Interest was not imputed in the originally filed Form 10-Q for the three months ended November 30, 2006.

The impact to our reported balance sheet and statement of operations and cash flows is as follows:

| <u>In thousands (except per share data)</u> | <u>As Originally Reported</u> | <u>Adjustments</u> | <u>As Restated</u> |
|--|-------------------------------|--------------------|--------------------|
| November 30, 2006 Balance Sheet: | | | |
| Investments in water and water systems | \$ 124,863 | \$ (20,457) | \$ 104,406 |
| Tap Participation Fees payable to HP A&M | \$ 66,103 | \$ (19,327) | \$ 46,776 |
| Three Months Ended November 30, 2006 Statements of Operations and Cash Flows: | | | |
| Depreciation and depletion: | \$ (101) | \$ 11 | \$ (90) |
| Imputed interest expense related to the | | | |
| Tap Participation Fees payable to HP A&M | \$ — | \$ (1,141) | \$ (1,141) |
| Net loss | \$ (455) | \$ (1,130) | \$ (1,585) |
| Basic and diluted net loss per common share | \$ (0.02) | \$ (0.07) | \$ (0.09) |

We will assess the value of the Tap Participation Fees each reporting period, or whenever events or circumstances indicate a material change in the assumptions used to estimate the fair value of the liability. Because the estimates and assumptions used to value the Tap Participation Fees payable to HP A&M are subjective, actual results could vary materially from the estimates. No

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events or circumstances have occurred since August 31, 2006 which would lead us to believe the fair value of the Tap Participation Fees payable to HP A&M has changed materially since August 31, 2006.

Except as required to reflect the effects of the restatements described above, no attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q. Accordingly, this Form 10-Q/A, including the financial statements and notes thereto included herein, do not reflect events occurring after the date of the original filing of the Form 10-Q or modify or update those disclosures affected by subsequent events. Consequently, all other information not affected by the restatement is unchanged by this Form 10-Q/A and reflects the disclosures made at the time of the original filing of the Form 10-Q on January 16, 2007. For a description of subsequent events, this Form 10-Q/A should be read in conjunction with our filings made subsequent to January 16, 2007.

Item 6 of Part II of the Form 10-Q has been amended to contain the currently dated certifications of our President and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The updated certifications of our President and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31 and 32.

Solely for the convenience of the reader, this Form 10-Q/A, includes, in their entirety, those items in the original filing that are not being amended and restated.

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PURE CYCLE CORPORATION
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PART I - FINANCIAL INFORMATION

Item 1 — Financial Statements (unaudited)

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[Statements of Operations — For the three months ended November 30, 2006 and 2005](#)

[Statements of Cash Flows — For the three months ended November 30, 2006 and 2005](#)

PART II — OTHER INFORMATION

PURE CYCLE CORPORATION
BALANCE SHEETS

| | November 30, 2006 (unaudited) (restated) | August 31, 2006 (restated) |
|--|---|----------------------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 99,438 | \$ 374,069 |
| Marketable securities | 2,337,747 | 2,529,406 |
| Trade accounts receivable | 45,787 | 65,420 |
| Interest receivable | 32,081 | 36,880 |
| Prepaid expenses and other current assets | 94,611 | 50,825 |
| Current portion of construction proceeds receivable | 64,783 | 64,783 |
| Total current assets | <u>2,674,447</u> | <u>3,121,383</u> |
| Investments in water and water systems, net | 104,405,918 | 104,455,868 |
| Construction proceeds receivable, less current portion | 784,338 | 800,172 |
| Note receivable — Rangeview Metropolitan District, including accrued interest | 458,090 | 452,230 |
| Property and equipment, net | 3,584 | 4,287 |
| Total assets | <u>\$ 108,326,377</u> | <u>\$ 108,833,940</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,794 | \$ 34,650 |
| Accrued liabilities | 169,957 | 289,596 |
| Deferred revenues | 55,800 | 55,800 |
| Current portion of long-term debt — related parties | 26,542 | — |
| Total current liabilities | <u>272,093</u> | <u>380,046</u> |
| Long-term debt — related parties | — | 26,542 |
| Deferred revenues, less current portion | 1,599,564 | 1,613,515 |
| Participating Interests in Export Water Supply | 6,513,738 | 6,514,116 |
| Tap Participation Fees payable to HP A&M, including imputed interest of \$1,141,000 and \$0 | 46,776,000 | 45,635,000 |
| Total liabilities | <u>55,161,395</u> | <u>54,169,219</u> |
| Commitments and Contingencies | | |
| STOCKHOLDERS’ EQUITY: | | |
| Preferred stock: | | |
| Par value \$.001 per share, 25 million shares authorized; Series B — 432,513 shares issued and outstanding (liquidation preference of \$432,513) | 433 | 433 |
| Common stock: | | |
| Par value 1/3 of \$.01 per share, 40 million shares authorized; 18,368,807 and 18,348,834 shares outstanding | 61,684 | 61,602 |
| Additional paid-in capital | 80,732,444 | 80,609,875 |
| Treasury stock, at cost, 134,979 and 130,279 shares of common stock | (1,053,949) | (1,009,534) |
| Accumulated comprehensive loss | (3,417) | (10,654) |
| Accumulated deficit | (26,572,213) | (24,987,001) |
| Total stockholders’ equity | <u>53,164,982</u> | <u>54,664,721</u> |
| Total liabilities and stockholders’ equity | <u>\$ 108,326,377</u> | <u>\$ 108,833,940</u> |

See Accompanying Notes to Financial Statements

(unaudited)

| | Three Months Ended November 30, | |
|--|---------------------------------|---------------------|
| | 2006 (restated) | 2005 |
| Revenues: | | |
| Metered water usage | \$ 35,005 | \$ 38,643 |
| Wastewater treatment fees | 14,752 | 14,752 |
| Special facility funding | 10,377 | — |
| Water tap fees | 3,574 | — |
| Sky Ranch options | — | 12,150 |
| Total revenues | <u>63,708</u> | <u>65,545</u> |
| Expenses: | | |
| Cost of revenues: | | |
| Water delivery costs | (13,689) | (14,019) |
| Wastewater treatment costs | (5,909) | (4,586) |
| Depletion and depreciation | (21,829) | (185) |
| Total cost of revenues | <u>(41,427)</u> | <u>(18,790)</u> |
| Gross margin | 22,281 | 46,755 |
| General and administrative expenses | | |
| Depreciation | (443,536) | (288,418) |
| Operating loss | <u>(68,624)</u> | <u>(2,764)</u> |
| Other income (expense): | | |
| Interest income | 44,603 | 48,840 |
| Gain on sale of marketable securities | 1,064 | — |
| Interest expense imputed on the Tap Participation Fees payable to HP A&M | (1,141,000) | — |
| Interest expense — related parties | — | (5,340) |
| Interest expense | — | (4,185) |
| Net loss | <u>\$ (1,585,212)</u> | <u>\$ (205,112)</u> |
| Net loss per common share — basic and diluted | <u>\$.09</u> | <u>\$.01</u> |
| Weighted average common shares outstanding — basic and diluted | <u>18,353,443</u> | <u>14,371,263</u> |

See Accompanying Notes to Financial Statements

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PURE CYCLE CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

| | Three Months Ended November 30, | |
|---|---------------------------------|--------------------|
| | 2006 (restated) | 2005 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,585,212) | \$ (205,112) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Stock compensation expense | 78,236 | 51,019 |
| Depreciation, depletion and other non-cash items | 91,158 | 2,949 |
| Imputed interest expensed on Tap Participation Fees payable to HP A&M | 1,141,000 | — |
| Interest expensed on long-term debt — related parties | — | 5,340 |
| Interest expensed on long-term debt | — | 4,185 |
| Interest added to construction proceeds receivable | (12,831) | — |
| Interest added to note receivable — Rangeview Metropolitan District | (5,860) | (4,955) |
| Gain on sale of marketable securities | (1,064) | — |
| Changes in operating assets and liabilities: | | |
| Export water proceeds to be remitted to escrow agent | — | 174,890 |
| Trade accounts receivable | 19,633 | (58) |
| Construction proceeds receivable | 28,665 | — |
| Interest receivable and prepaid expenses | (38,987) | (30,149) |
| Accounts payable and accrued liabilities | (134,495) | (159,043) |
| Deferred revenues | (13,951) | (12,150) |
| Net cash used by operating activities | <u>(433,708)</u> | <u>(173,084)</u> |
| Cash flows from investing activities: | | |
| Investments in water and water systems | (4,000) | (220,167) |
| Capitalized acquisition costs | (35,800) | — |
| Sales and maturities of marketable securities | 199,960 | 1,487,490 |
| Purchase of marketable securities | — | (2,391,576) |
| Purchase of property and equipment | — | (2,456) |
| Net cash provided (used) by investing activities | <u>160,160</u> | <u>(1,126,709)</u> |
| Cash flows from financing activities: | | |

| | | |
|--|-----------|-------------|
| Payments to Participating Interests in Export Water Supply holders | (1,083) | — |
| Proceeds from the sale of common stock | — | 270,000 |
| Net cash (used) provided by financing activities | (1,083) | 270,000 |
| Net change in cash and cash equivalents | (274,631) | (1,029,793) |
| Cash and cash equivalents — beginning of period | 374,069 | 1,973,882 |
| Cash and cash equivalents — end of period | \$ 99,438 | \$ 944,089 |

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – ACCOUNTING POLICIES AND RESTATEMENT

Restatement. Pure Cycle Corporation (the “Company”) has restated its November 30, 2006 balance sheet, statements of operations and cash flows to correct errors in its accounting for the Asset Purchase Agreement (the “Arkansas River Agreement”) between the Company and High Plains A&M, LLC (“HP A&M”). These errors were discovered following the Company’s request for concurrence from the Staff of the Securities and Exchange Commission (the “Staff of the Commission”) on certain items related to the Arkansas River Agreement as explained in detail below.

The Company initially recorded the liability captioned *Tap Participation Fees payable to HP A&M* at approximately \$66.1 million. This liability was accounted for pursuant to Statement of Financial Accounting Standard No. 141 *Business Combinations (as amended)* (“SFAS 141”). The value of the liability was determined by the residual method, pursuant to which the Company deducted the value of the equity consideration given to HP A&M from the fair value of the assets acquired from HP A&M to determine the value of the *Tap Participation Fees payable to HP A&M* liability. Upon review, it was determined that the *Tap Participation Fees payable to HP A&M* did not constitute contingent consideration per SFAS 141, and therefore valuing the *Tap Participation Fees payable to HP A&M* using the residual method was incorrect. Based on this, the Company valued the *Tap Participation Fees payable to HP A&M* using a discounted cash flow model, which resulted in a reduction of the recorded liability and values assigned to the acquired assets of approximately \$20.5 million at August 31, 2006 (the acquisition date). At November 30, 2006, the Company restated the liability account *Tap Participation Fees payable to HP A&M* to its estimated fair value of \$46,776,000 (which includes imputed interest of \$1,141,000). The valuation of the *Tap Participation Fees payable to HP A&M* is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond the Company’s control. The value of the *Tap Participation Fees* and the equity issued to HP A&M have been allocated to the acquired assets based on each asset’s relative fair values as described in Note 3 below.

On September 1, 2006, the Company began imputing interest expense on the unpaid balance using an effective interest method, which was not reflected in the Company’s original Form 10-Q. The Company will assess the value of the *Tap Participation Fees payable to HP A&M* each reporting period or whenever events or circumstances indicate a material change in the assumptions utilized to estimate the fair value of the liability. Because the estimates and assumptions used to value the *Tap Participation Fees payable to HP A&M* are subjective, actual results could vary materially from the estimates.

The Company’s November 30, 2006 balance sheet, three months ended November 30, 2006 statements of operations and cash flows, and Note 3 – Water, Water Systems and Service Agreement, have been restated. The impact of the restatement is as follows:

| | As Originally Reported | Adjustments | As Restated |
|--|------------------------|-----------------|----------------|
| November 30, 2006 Balance Sheet: | | | |
| Investments in water and water systems | \$ 124,862,968 | \$ (20,457,050) | \$ 104,405,918 |
| Tap Participation Fees payable to HP A&M | \$ 66,102,825 | \$ (19,326,825) | \$ 46,776,000 |
| Three Months Ended November 30, 2006 Statements of Operations and Cash Flows: | | | |
| Depreciation and depletion: | \$ (101,228) | \$ 10,775 | \$ (90,453) |
| Imputed interest expense related to the Tap Participation Fees payable to HP A&M | \$ — | \$ (1,141,000) | \$ (1,141,000) |
| Net loss | \$ (454,987) | \$ (1,130,225) | \$ (1,585,212) |
| Basic and diluted net loss per common share | \$ (0.02) | \$ (0.07) | \$ (0.09) |

The balance sheet as of November 30, 2006, the statements of operations for the three months ended November 30, 2006 and 2005, respectively, and the statements of cash flows for the three months ended November 30, 2006 and 2005 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows at November 30, 2006 and for all periods presented have been appropriately made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s 2006 Annual Report on Form 10-K/A. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

The August 31, 2006 balance sheet was derived from the Company's restated audited financial statements.

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

Stock-based compensation expense recognized under SFAS 123(R) for the three months ended November 30, 2006 and 2005, was approximately \$78,000 and \$51,000, respectively.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as a period expense over the requisite service period in the statement of operations. Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

Stock-based compensation expense recognized in the Company's statements of operations for the three months ended November 30, 2006 and 2005, includes the following:

- Compensation expense for share-based payment awards granted prior to, but not yet vested as of, September 1, 2005. The compensation expense recognized was based on the grant date fair value estimated in accordance with the pro-forma provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123").
- Compensation expense for share-based payment awards granted subsequent to September 1, 2005. The compensation expense recognized was based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

In accordance with SFAS 123(R) stock-based compensation expense recognized in the statements of operations for the three months ended November 30, 2006 and 2005 is based on awards ultimately expected to vest. The Company does not expect any forfeitures of its prior option grants and therefore the compensation expense has not been reduced for estimated forfeitures. No options were forfeited by option holders during the three months ended November 30, 2006 or 2005. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred. The Company attributes the value of stock-based compensation to expense using the straight-line single option method for all options granted.

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

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- The grant date exercise price — which is the closing market price of the Company's common stock on the date of grant;
 - Estimated option lives — based on historical experience with existing option holders;
 - Estimated dividend rates — based on historical and anticipated dividends over the life of the option;
 - Life of the option — pursuant to the 2004 Incentive Plan, all option grants have a 10 year life;
 - Risk-free interest rates — with maturities that approximate the expected life of the options granted;
 - Calculated stock price volatility — calculated over the expected life of the options granted, which is calculated based on the weekly closing price of the Company's common stock over a period equal to the expected life of the option; and
 - Option exercise behaviors — based on actual and projected employee stock option exercises and forfeitures.

No options were granted in the three months ended November 30, 2006.

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

Business segments. The operating segments reported below are the segments of the Company for which separate discrete financial information is available and for which results are evaluated by the Company's President in deciding how to allocate resources and in assessing performance. The Company evaluates the performance of its segments based on gross margins of the respective business units before corporate and unallocated shared expenses if any. The accounting policies of the segments are the same as those of the Company as described in Note 2 in the Company's 2006 Annual Report on Form 10-K/A.

The Company principally has two lines of business: (i) the design and construction of water and wastewater systems, and (ii) the provision of water and wastewater services, which includes the operations and maintenance of systems the Company constructed, to customers within the Company's service area.

Beginning in August 2005 and concluding in fiscal 2006, the Company expanded its water system to enable it to provide water services to the Arapahoe County Fairgrounds. The construction project included the design and construction of a 500,000 gallon water tank, a new deep water well and pipelines. The Company designed the system and hired third party contractors to build the required infrastructure, which was supervised by the Company's engineer. The construction costs totaled \$2.6 million, which are capitalized with the Company's investments in water and water systems. As of August 31, 2006, these assets were fully operational and transferred to the service provider segment balance sheet and therefore there are no construction segment assets on the Company's accompanying balance sheet.

The results of operations for the three months ended November 30, 2006 relate entirely to the service provider segment with the exception of (i) the \$3,574 of deferred water tap fees recognized as revenues, and (ii) the \$10,377 of deferred *Special facility funding* recognized as revenues. There were no operations related to the construction segment for the three months ended November 30, 2005.

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

NOTE 2 — MARKETABLE SECURITIES

Marketable Securities. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations each reporting period. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. The Company had no investments classified as held-to-maturity at November 30, 2006 or August 31, 2006.

Debt securities for which the Company does not have the positive intent or ability to hold to maturity are classified as available-for-sale, along with any investments in equity securities. Securities classified as available-for-sale are marked-to-market at each reporting period. Changes in value on such securities are recorded as a component of *Accumulated comprehensive income*. The cost of securities sold is based on the specific identification method.

The following is a summary of marketable securities at November 30, 2006:

| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|--------------|------------------------|-------------------------|----------------------|
| Commercial paper | \$ 100,234 | \$ — | \$ — | \$ 100,234 |
| U.S. government debt securities: | | | | |
| With unrealized gains: | 494,668 | 1,407 | — | 496,075 |
| With unrealized losses held more than 12 months | 798,203 | — | (2,999) | 795,204 |
| U.S. corporate debt securities: | | | | |
| With unrealized gains | 345,789 | 1,165 | — | 346,954 |
| With unrealized losses held: | | | | |
| Less than 12 months | 401,292 | — | (1,496) | 399,796 |
| More than 12 months | 301,212 | — | (1,494) | 299,718 |
| Total investments | 2,441,398 | 2,572 | (5,989) | 2,437,981 |
| Less cash equivalents | 100,234 | — | — | 100,234 |
| Total marketable securities | \$ 2,341,164 | \$ 2,572 | \$ (5,989) | \$ 2,337,747 |

The investments that are in a net loss position for greater than twelve months are not deemed to be other than temporary losses based on the nature of the corporate bond markets, the significant fluctuations that have occurred in the markets over the past several years and the limited realized losses the Company has experienced. The Company actively monitors the performance of its investments and adopted a new investment policy in fiscal 2005 to more closely align its investment portfolio with its expected capital requirements.

The Company's marketable securities mature at various dates through December 2007. However, these securities represent the temporary investment of capital and it is not management's intent to hold these securities until maturity.

NOTE 3 — INVESTMENTS IN WATER AND WATER SYSTEMS

The Company's investments in water and water systems consist of the following at November 30, 2006 and August 31, 2006:

| | November 30, 2006 (restated) | | August 31, 2006 (restated) | |
|---|---------------------------------|--|-------------------------------|--|
| | Costs | Accumulated Depreciation and Depletion | Costs | Accumulated Depreciation and Depletion |
| Arkansas River Valley water supply and related assets | \$ 82,161,752 | \$ (65,477) | \$ 82,125,952 | \$ — |
| Rangeview water supply | 13,928,448 | (3,920) | 13,924,448 | (3,768) |
| Rangeview water system | 167,720 | (31,154) | 167,720 | (28,862) |
| Paradise water supply | 5,520,836 | — | 5,520,836 | — |
| Arapahoe County Fairgrounds water and water system | 2,653,995 | (28,901) | 2,653,995 | (7,225) |
| Sky Ranch water supply | 100,000 | — | 100,000 | — |
| Water supply — other | 3,022 | (403) | 3,022 | (250) |
| Totals | \$ 104,535,773 | \$ (129,855) | \$ 104,495,973 | \$ (40,105) |
| Net investments in water and water systems | \$ 104,405,918 | | \$ 104,455,868 | |

Acquisition of the Arkansas River Valley Assets. As more fully described in Note 3 to the Company's 2006 Annual Report on Form 10-K/A, effective May 10, 2006, the Company entered into the Asset Purchase Agreement (the "Arkansas River Agreement") with HP A&M to acquire the following assets from HP A&M:

- (i) Senior water interests in the Arkansas River and its tributaries represented by shares of the Fort Lyon Canal Company ("FLCC") (collectively these are referred to as the "Water Rights"),
- (ii) Certain real property located in Bent, Otero and Prowers counties, Colorado associated with the Water Rights (the "Properties") (certain of the Properties are subject to promissory notes maintained by HP A&M as further described below), and
- (iii) Certain contract rights, water delivery fixtures, mineral rights, and other water interests related to the Water Rights and Properties (collectively the Water Rights, Properties, and related assets are referred to as the "Acquired Assets").

The Company acquired the Water Rights to enhance and better balance its water portfolio by increasing its rights to senior surface water. The Properties and other non-water assets were acquired because the rights to the Arkansas River water the Company seeks to transfer for use in the Denver market are based on the quantity of water historically used to irrigate crops grown on the Properties.

The Company and HP A&M consummated the asset acquisition pursuant to the Arkansas River Agreement on August 31, 2006 after the due diligence period provided for in the Arkansas River Agreement. As consideration for the Acquired Assets, on August 31, 2006, the Company issued HP A&M 3,000,000 shares of Pure Cycle common stock valued at approximately \$36.2 million. The Company also granted HP A&M the right to receive ten percent (10%) of the Company's gross proceeds, or the equivalent thereof, from the sale of the next 40,000 water taps (the "Tap Participation Fee") (the 40,000 figure was reduced to 39,470 at the August 31, 2006 closing date because HP A&M sold certain assets and properties not related to the FLCC shares which were subject to the Arkansas River Agreement and were available for credits against the Tap Participation Fee), valued at approximately \$45.6 million. The Tap Participation Fee will be due and payable once the Company has sold a water tap and received the consideration due for such water tap. After five years, under circumstances defined in the Arkansas River Agreement, the Tap Participation Fee can increase to 20% and the number of water taps subject to the Tap Participation Fee would be correspondingly reduced by half. The entire Tap Participation Fee is subject to acceleration in the event of a merger, reorganization, sale of substantially all assets, or similar transactions and in the event of bankruptcy and insolvency events.

Pursuant to Emerging Issues Task Force Issue No. 99-12 *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*, the equity consideration was valued at approximately \$36.2 million.

The \$46.8 million estimated fair value of the Tap Participation Fees (which includes imputed interest of approximately \$1.1 million) was determined using a discounted cash flow analysis of the projected payments to HP A&M. The Company determined this value by estimating new home development in the Company's service area over an estimated development period. This was done by utilizing third party historical and projected housing and population growth data for the Denver, Colorado metropolitan area applied to an estimated development pattern supported by historical development patterns of certain master planned communities in the Denver, Colorado metropolitan area. This development pattern was then applied to future water tap fees that were calculated using historical water tap fees. The realizable value of the Tap Participation Fees payable to HP A&M were discounted to August 31, 2006, using a rate that approximates the prevailing rate we believe would be available to similar companies in our industry. Actual development may differ substantially from the estimated new home development in our service area, which may have a material effect on the estimated fair value of the Tap Participation Fees payable to HP A&M and such differences may have a material impact on our financial statements. The valuation of the Tap Participation Fees payable to HP A&M is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at our rate-based districts, and other market forces beyond the Company's control.

The Company imputes interest expense on the unpaid Tap Participation Fees payable to HP A&M using an effective interest method over the estimated development period utilized in the valuation of the liability. During the three months ended November 30, 2006, the Company imputed interest expense of approximately \$1.1 million related to the Tap Participation Fees, which accounted for a net loss of \$.06 per share.

Certain of the properties the Company acquired are subject to outstanding promissory notes with principal and accrued interest totaling approximately \$14.5 million at November 30, 2006. These notes are secured by deeds of trust on the Properties. The Company did not assume any of these promissory notes and is not responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M. In the event of default by HP A&M, at the Company's sole discretion, the Company may make payments pursuant to any or all of the notes and cure any or all of the defaults. If the Company does not cure the defaults, it will lose the properties securing the defaulted notes. If HP A&M defaults on the promissory notes, the Company can foreclose on a defined amount of stock issued to HP A&M and reduce the Tap Participation Fee by two times the amount of notes defaulted on by HP A&M. Because HP A&M would lose such a substantial amount of equity and Tap Participation Fees, and based on the financial stability of HP A&M and its owners and affiliated companies, the probability of HP A&M defaulting on the notes is deemed remote.

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

Upon the closing, the Company and HP A&M also entered into various agreements which are explained in more detail in the Company's 2006 Annual Report on Form 10-K/A. One of the agreements is a five year property management agreement with HP A&M, pursuant to which HP A&M holds the right to pursue leasing of the Properties and the Water Rights to interested parties. All lease income associated with leasing the Properties and Water Rights, together with all costs associated with these activities including but not limited to, overhead obligations, real property taxes, and personnel costs, are the sole opportunity and obligation of HP A&M. The Company assumed title to the current farm leases which are subject to the property management agreement effective August 31, 2006. However, pursuant to the Arkansas River Agreement, HP A&M will manage the leases for a period of five years and will receive all lease payments from the lessees as a management fee. Because the Company does not have the risk of loss associated with the leases (HP A&M's management fee is equal to the lease income for the next five years, and contractually HP A&M has the risk of loss on the leases), in accordance with EITF Issue No. 99-19 *Reporting Revenue Gross as Principal versus Net as an Agent ("EITF 99-19")*, the lease income and management fees will be reflected on a net revenue basis throughout the term of the management agreement. The leases subject to the property management agreement are all operating leases and expire at various dates through 2010, which is earlier than the expiration date of the management agreement.

The consideration paid to HP A&M was allocated to the Acquired Assets based on estimates of each asset's, or group of assets', respective fair value. The fair value of the Water Rights was determined by an independent third party appraisal and the remaining assets were valued by internal studies.

Due to the timing of the closing of the Arkansas River Agreement and the complexities associated with the valuation of the Acquired Assets, the Company has not finalized its internal studies of the fair value of the Acquired Assets. Therefore, the allocation of the purchase price is based on preliminary data and could change when final evaluations of the Acquired Assets are completed.

In order to utilize the Arkansas River water in the Company's service areas, the Company will be required to convert this water to municipal and industrial uses. Change of water use must be done through the Colorado water courts and several conditions must be present prior to the water court's granting an application for transfer of a water right. A transfer case would be expected to require the Company to meet the following conditions and restrictions: (i) satisfaction of an anti-speculation requirement pursuant to which the applicant must have contractual obligations to provide water service to customers prior to the water court's ruling on the transfer of a water right, (ii) a limitation

that the applicant may only transfer the “consumptive use” portion of its water rights (the Company expects to face opposition to any consumptive use calculation of the historic agricultural uses of its water), (iii) a likely requirement that the applicant mitigate the loss of tax base in the basin of origin, (iv) likely re-vegetation requirements to restore irrigated soils to non-irrigated, and (v) a requirement to meet water quality measures which would be included in the cost of transferring the water rights. The Company will likely need to construct a pipeline, which would be approximately 150 miles long and cost in excess of \$400 million, in order to transport the Arkansas River water to its potential customers along the Front Range. The cost for this pipeline is expected to be funded through tap sales utilizing the Company’s existing Denver based assets, but there can be no assurances that the Company will be able to generate the funds necessary to complete this pipeline without additional debt or equity offerings.

The Acquired Assets are being depleted and depreciated consistent with the Company’s depletion and depreciation policies.

NOTE 4 — PARTICIPATING INTERESTS IN EXPORT WATER

The Company commenced the purchase of its Rangeview Water Supply through a Water Commercialization Agreement (“WCA”), an agreement with a related investor (the “LCH Agreement”) and the sale of 432,513 shares of Series B Preferred Stock. The WCA was entered into in 1990 and amended in 1991 and 1992 and again in 1996 by the signing of the Comprehensive Amendment Agreement No. 1 (the “CAA”). The parties to the WCA and CAA agreements provided the Company approximately \$11.1 million of financing to acquire the Rangeview Water Supply. This amount (which has been reduced by the transactions described below) is presented on the accompanying balance sheet as *Participating Interests in Export Water supply*, a liability. In addition to repaying the initial \$11.1 million of funding, the CAA provided that the Company would pay the parties to the CAA an additional approximate \$20.9 million of proceeds from Export Water sales (of which, \$218,500 was to be retained by the Company). Under the CAA, these funds are to be repaid strictly with proceeds from the sale of Export Water. Therefore, before the acquisitions noted in the table below, which are further described in the Company’s 2006 Annual Report on Form 10-K/A for the year ended August 31, 2006, the first \$32.0 million received from the sale of Export Water was required to be paid to external CAA holders.

As the proceeds from the sale of Export Water are received, and the amounts are remitted to the external CAA holders, the Company allocates a ratable percentage of this payment to the principal portion (the *Participating Interests in Export Water supply* liability account) with the balance of the payment being charged to the contingent obligation portion. The amount allocated to the liability is 35% which is the percentage the \$11.1 million represented of the total \$32.0 million obligation. The remaining portion, or 65%, is allocated to the contingent obligation. The portion allocated to principal will be recorded as a reduction in the *Participating Interests in Export Water* liability account while the amounts applied to the contingency are recorded on a net revenue basis when funds are received.

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The table below details the transactions impacting the CAA obligations since its signing, which are explained in greater detail in the Company’s 2006 Annual Report on Form 10-K/A:

| | Export Water Proceeds Received | Export Water Proceeds to Pure Cycle | Total Potential Obligation | Participating Interests Liability | Contingency |
|---|---|--|----------------------------------|---|---------------|
| Original balances | \$ — | \$ 218,500 | \$ 31,807,732 | \$ 11,090,630 | \$ 20,717,102 |
| Sky Ranch option payment | 50,000 | — | (50,000) | (17,435) | (32,565) |
| Acquisitions | — | 8,199,333 | (8,199,333) | (2,858,920) | (5,340,413) |
| Balance at August 31, 2004 | 50,000 | 8,417,833 | 23,558,399 | 8,214,275 | 15,344,124 |
| Sky Ranch option payment | 50,000 | (35,000) | (15,000) | (5,231) | (9,769) |
| Hills at Sky Ranch option payment | 10,400 | (7,280) | (3,120) | (1,088) | (2,032) |
| Arapahoe County tap fees * | 532,968 | (373,078) | (159,890) | (55,754) | (104,136) |
| Balance at August 31, 2005 | 643,368 | 8,002,475 | 23,380,389 | 8,152,202 | 15,228,187 |
| Acquisition | — | 4,698,001 | (4,698,001) | (1,638,086) | (3,059,915) |
| Balance at August 31, 2006 | 643,368 | 12,700,476 | 18,682,388 | 6,514,116 | 12,168,272 |
| Export water sales remitted to escrow agent | 3,609 | (2,526) | (1,083) | (378) | (705) |
| Balance at November 30, 2006 | \$ 646,977 | \$ 12,697,950 | \$ 18,681,305 | \$ 6,513,738 | \$ 12,167,567 |

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

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

NOTE 5 — STOCKHOLDERS’ EQUITY

During the three months ended November 30, 2006, the Company issued 24,673 shares of common stock upon the exercise of stock options. The options were exercised at a price of \$1.80 per share. The exercise price for the options exercised was paid for by the option holder utilizing 4,700 shares of Company common stock that was held by the option holder more than six months with a market value at the date of exercise totaling \$44,415, which is shown as Treasury Stock on the accompanying balance sheet.

Loss per Common Share

Loss per common share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Common stock options and warrants aggregating 663,663 and 1,321,224 common share equivalents as of November 30, 2006 and 2005, respectively, have been excluded from the calculation of loss per common share as their effect is anti-dilutive.

Comprehensive Loss

In addition to net loss, comprehensive loss includes the unrecognized changes in the fair value of marketable securities that are classified as available-for-sale as noted in the following table:

| | Three Months Ended November 30 | |
|---|--------------------------------|--------------|
| | 2006 | 2005 |
| Net loss | \$ (1,585,212) | \$ (205,112) |
| Unrealized gain (loss) on marketable securities | 7,237 | (12,200) |
| Comprehensive loss | \$ (1,577,975) | \$ (217,312) |

NOTE 6 — RELATED PARTY TRANSACTIONS

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

NOTE 7 — SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES

| | | |
|---|-----------|-----------|
| Treasury stock accepted upon exercise of stock options with mature shares used as consideration | \$ 44,415 | \$ 93,900 |
|---|-----------|-----------|

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying unaudited financial statements and related notes thereto and the financial statements and the notes thereto contained in our 2006 Annual Report on Form 10-K/A.

Disclosure Regarding Forward-Looking Statements

Certain statements in this Quarterly Report, other than purely historical information, including estimates, projections, forecasts, and assumptions are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "anticipate," "believe," "estimate," "expect," "plan," "intend," "would" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. We cannot assure you that any of our expectations will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, without limitation, the timing of development of the areas where we may sell our water, including uncertainties related to the development of projects the Company currently has under contract, the market price of water, changes in applicable statutory and regulatory requirements, uncertainties in the estimation of water available under decrees, costs of delivery of water and treatment of wastewater, uncertainties in the estimation of costs of construction projects, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, climatic and weather conditions, labor relations, availability and cost of material and equipment, delays in anticipated permit and construction dates, environmental risks, the results of financing efforts and the ability to meet capital requirements, and general economic conditions. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

General

Pure Cycle Corporation is an investor owned water and wastewater service provider engaged in the design, construction, operation and maintenance of water and wastewater systems. We incorporated in 1976 in the State of Delaware. Our business premise is that water is a precious commodity that is often undervalued and therefore used inefficiently. We primarily operate in the Denver, Colorado metropolitan area and have assets located in the Denver area, in southeastern Colorado in the Arkansas River, and on the western slope of Colorado. Our business practices are centered on efficient and environmentally responsible water management programs to ensure we have water to meet the long-term needs of our customers. Utilizing our water assets, we withdraw, treat, store and deliver water to our customers. We then collect wastewater from our customers which is treated and reused through dual distribution systems. A dual distribution system is one in which domestic water demands and irrigation water demands are provided through separate independent infrastructure. Our dual distribution systems promote efficient water resource management and reduce the amount of water that is "wasted" by traditional water systems which enable us to maximize the use of our valuable water supplies and allow us the ability to provide long-term water solutions on a regional basis.

Our water assets are comprised of the following annual entitlements which are described in greater detail in our 2006 Annual Report on Form 10-K/A:

- We own approximately 60,000 acre-feet of senior (i.e., 1883) water rights in the Arkansas River and its tributaries represented by over 21,600 shares of the Fort Lyon Canal Company ("FLCC");
- We own approximately 11,650 acre-feet of water located at the Lowry Range Property, which we can "export" from the Lowry Range Property to supply water to nearby communities and developers in need of additional water supplies (this water asset is referred to as our "Export Water");
- We have the exclusive rights to use, through 2081, approximately 17,620 acre-feet of water located at the Lowry Range Property. This water is required to be used specifically on the Lowry Range Property (collectively we refer to the 17,620 acre-feet of water designated for use on the Lowry Range Property and the 11,650 acre-feet of Export Water as our "Rangeview Water Supply");
- We own, subject to receipt of a water rights deed, approximately 350 acre-feet of groundwater pursuant to an Agreement for Water Service (the "County Agreement") with Arapahoe County (the "County"), which will be added to our overall Denver metropolitan water supply portfolio;

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- We own approximately 89 acre-feet of water located beneath Sky Ranch together with the right to purchase an additional 671 acre-feet of water (for a total of 760 acre-feet), which will be used to provide water service to the initial 1,500 taps purchased at Sky Ranch; and
- We own conditional water rights in western Colorado that entitle us to build a 70,000 acre-foot reservoir to store tributary water on the Colorado River; a right-of-way permit from the U.S. Bureau of Land Management for property at the dam and reservoir site; and four tributary water wells with a theoretical capacity to produce approximately 56,000 acre-feet of water annually (collectively known as the "Paradise Water Supply").

Our water marketing activities target our water and wastewater services to developers and homebuilders developing new areas along the Front Range, which includes the greater Denver and Colorado Springs metropolitan areas. Our groundwater supplies are largely undeveloped and are located in the southeastern portion of the greater Denver

area in Arapahoe County, one of the fastest growing regions of the Denver metropolitan area. The majority of our surface water is located in the Arkansas River Valley, and we are proposing to use it in our target service market and throughout the Front Range of Colorado. We work with area developers to investigate water supply constraints, water and wastewater utility issues, market demand, transportation concerns, employment centers and other issues in order to identify suitable areas for development. Construction of water and wastewater systems and the providing of water and wastewater services are subject to individual water and wastewater service agreements. We negotiate individual agreements with developers and/or homebuilders to provide the design, construction and operation of water and wastewater systems and services. Our service contracts outline our obligations to design, construct and operate certain facilities necessary to develop and treat water and treat and reuse wastewater. These service agreements include the timing of installation of the facilities, required capacities of the systems, and locations for the services to be provided. Service agreements address all aspects of the development of the water and wastewater systems, which are more specifically discussed in our 2006 Annual Report on Form 10-K/A.

We have a Service Agreement with the Rangeview Metropolitan District (the "District") and the State of Colorado Board of Land Commissioners (the "Land Board") to design, construct, operate and maintain water and wastewater systems on the Lowry Range. The Lowry Range is 22,000 acres of property located in the southeastern metropolitan area in Arapahoe County. In April 2006, the Land Board received proposals from developers to develop approximately 3,500 acres of the Lowry Range. Of this, we have the exclusive rights to provide water and wastewater services to approximately 1,200 acres. In December 2006, the Land Board selected Australia based Lend Lease Corporation, an international developer operating in over 40 countries worldwide to negotiate an exclusive development agreement.

Pursuant to the water services agreements with Sky Ranch, as further described in our 2006 Annual Report on Form 10-K/A, Sky Ranch is required to make annual option payments of \$50,000 and \$10,400 for the right to use our Export Water at Sky Ranch. As of the date of this filing we have not received either of the option payments due in our fiscal 2006 from Sky Ranch, and therefore Sky Ranch is in default on these payments. Notwithstanding Sky Ranch being in default on its option fees related to our Export Water, our service agreement with Sky Ranch remains in effect. We have purchased a portion of the water beneath Sky Ranch under an installment sale contract, and maintain responsibility to provide water service to up to 1,500 single family units at the Sky Ranch development. Continued default by Sky Ranch on payment of option fees for our Export Water, places the Sky Ranch development at risk of not being able to use our Export Water to service development in excess of the 1,500 single family units.

Results of Operations

Executive Summary

The approximate results of our operations for the three months ended November 30, 2006 and 2005 were as follows:

| | 2006 | 2005 |
|--|------------|------------|
| Millions of gallons of water delivered | 10.7 | 13.0 |
| Water revenues | \$ 35,000 | \$ 38,600 |
| Water delivery operating costs | \$ 13,700 | \$ 14,000 |
| Gross margin % | 61% | 64% |
| Wastewater treatment revenues | \$ 14,800 | \$ 14,800 |
| Wastewater treatment operating costs | \$ 5,900 | \$ 4,600 |
| Gross margin % | 60% | 69% |
| General and administrative expenses | \$ 443,500 | \$ 288,400 |

Water usage and Wastewater Treatment Revenues

Water deliveries for the three months ended November 30, 2006 dropped 18% over the comparable period in 2005. This was mainly due to the Front Range experiencing more precipitation in 2006 than in 2005 and therefore, our customers using less water for irrigation purposes. However, due to increased water usage fees in July 2006, the water usage revenues for the three months ended November 30, 2006 are only 9% lower than 2005.

Our water service charges are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. Our rates and charges are established based on the average of three surrounding communities, referred to as our rate-based districts. Our rate-based districts have continued to raise their rates over the past several years.

Our wastewater customers are charged flat monthly fees based on the number of tap connections they have. Wastewater usage fees have not changed since July 2005.

Gross margin for water operations for the three months ended November 30, 2006 was comparable to the gross margin for water operations for the three months ended November 30, 2005. Gross margin for wastewater operations for the three months ended November 30, 2006 was impacted by certain testing and compliance costs not incurred in the comparable period in 2005. During the three months ended November 30, 2006, and for the comparable period in 2005, we reclassified certain energy bills from delivery operating costs to wastewater treatment operating costs to more accurately reflect the costs of treating wastewater.

General and Administrative and Other Expenses

General and administrative expenses for the three months ended November 30, 2006 and 2005 were impacted by the adoption of SFAS No. 123 (revised 2004) *Share Based Payment* ("SFAS 123(R)"). For the three month periods ended November 30, 2006 and 2005, we recorded stock-based compensation expenses of approximately \$79,000 and \$51,000, respectively. Without stock-based compensation expenses, general and administrative expenses for the periods presented would have been approximately \$364,500 and \$237,400. This is an increase over 2005 of \$127,100 which is mainly attributable to the following:

- During the three months ended November 30, 2006 we paid approximately \$75,000 in water assessment charges to the FLCC which is our share (based on the number of FLCC shares we own) of FLCC's annual operating and maintenance expenditures.
- Franchise taxes increased significantly due to the increases in our total assets as a result of the Arkansas River water acquisition. This accounted for approximately \$30,000 of the increase and is expected to result in an increase of approximately \$90,000 for fiscal 2007.
- Professional fees, that were not capitalized as part of the acquisition costs, accounted for approximately \$26,000 of the increase.

Depreciation and depletion charges for the three months ended November 30, 2006 increased approximately \$89,700 over the three months ended November 30, 2005. This is mainly a result of depreciation charges associated with the water delivery fixtures acquired from HP A&M on August 31, 2006 (depreciation began on September 1, 2006) and depreciation of capitalized legal costs associated with the HP A&M asset acquisition. In addition, in late fiscal 2006 we began depreciating the costs incurred to extend the water system to the Arapahoe County Fairgrounds.

Interest income totaled approximately \$44,600 and \$48,800 for the three months ended November 30 2006 and 2005, respectively. This represents interest earned on the temporary investment of capital in available-for-sale securities, interest accrued on the note receivable from the District and interest accrued on the construction proceeds receivable from Arapahoe County. The decrease is due to less funds being invested and earning interest as a result of the Arapahoe County construction project in fiscal 2006.

Interest expense imputed on the Tap Participation Fees payable to HP A&M totaled approximately \$1.1 million for the three months ended November 30, 2006. This represents the expensed portion of the difference between the relative fair value of the liability and the net present value of the liability, recognized using the effective interest method.

Interest expense — related parties was \$0 and approximately \$5,300 for the three months ended November 30, 2006 and 2005, respectively. This is due to the repayment of all interest bearing debt as of August 31, 2006.

Interest expense — non-related parties was \$0 and approximately \$4,200 for the three months ended November 30, 2006 and 2005, respectively. This is due to the extinguishment of all interest bearing debt as of August 31, 2006.

Our net loss for the three months ended November 30, 2006, was impacted by the items described above. Most notably, it was impacted by the imputed interest expense recognized on the Tap Participation Fees payable to HP A&M. Our net losses, and net losses per share for the three months ended November 30, 2006 and 2005, before and after the imputed interest expense on the Tap Participation Fees were approximately:

| | Three months ended November 30, | | |
|--|---------------------------------|--------------|----------------|
| | 2006 | 2005 | Increase |
| Net loss as reported | \$ (1,585,200) | \$ (205,100) | \$ (1,380,100) |
| Interest imputed on the Tap Participation Fees payable to HP A&M | 1,141,000 | — | 1,141,000 |
| Net loss less non-cash interest expense | \$ (444,200) | \$ (205,100) | \$ (239,100) |
| Net loss per common share as reported | \$ (0.09) | \$ (0.01) | \$ (0.08) |
| Effect of imputed interest expense on net loss per common share | 0.06 | — | 0.06 |
| Net loss per common share less imputed interest expense | \$ (0.03) | \$ (0.01) | \$ (0.02) |
| Weighted average common shares outstanding | 18,353,443 | 14,371,263 | |

Liquidity and Capital Resources

Our working capital, defined as current assets less current liabilities, at November 30, 2006 was approximately \$2.4 million, and we had cash and cash equivalents and marketable securities on hand totaling approximately \$2.4 million at November 30, 2006. We believe that at November 30, 2006, we have sufficient working capital to fund our operations for the next year. However, there can be no assurance that we will be successful in marketing the water from our primary water projects in the near term. In the event increased revenues and cash flows from providing water and wastewater services are not achieved, we may incur additional short or long-term debt or seek to sell additional equity securities to generate working capital to support our operations.

Development of the water that we own, have rights to use, or may seek to acquire, will require substantial capital investments. We anticipate that capital required for the development of the water and wastewater systems will be financed through the sale of water taps to developers and water delivery charges to users. A water tap charge refers to a charge we impose to fund construction of “Wholesale Facilities” (“Wholesale Facilities” are further defined in our 2006 Annual Report on Form 10-K/A) and permit access to our water delivery system (e.g., a single-family home’s tap into our water system), and a water service charge refers to a water customer’s monthly water bill, generally charged per 1,000 gallons of water delivered to the customer. We anticipate tap fees will be sufficient to generate funds with which we can design and construct the necessary Wholesale Facilities. However, once we receive tap fees from a developer, we are contractually obligated to construct the Wholesale Facilities for the taps paid for, even if our costs are not covered by the fees we receive. We can not assure you that these sources of cash will be sufficient to cover all our capital costs.

On August 31, 2006, we finalized the Arkansas River Agreement whereby we purchased approximately 60,000 acre-feet of Arkansas River water, real property and certain other related assets. Pursuant to the Arkansas River Agreement we agreed to pay HP A&M 10% of our tap fees received on the sale of the next 40,000 water taps. As of November 30, 2006, we have estimated the value of the Tap Participation Fees payable to HP A&M at approximately \$46.8 million based on a discounted cash flow valuation analysis. The actual amount to be paid could exceed our estimates. See “Note 3 — Water, Water Systems and Service Agreements” in the accompanying financial statements. Tap participation payments are not payable to HP A&M until we receive water tap fees.

We are obligated to pay the FLCC water assessment charges which are the charges assessed to the FLCC shareholders for the upkeep and maintenance of the Fort Lyon Canal. Based on historical information obtained from

HP A&M and based on our first payment, we anticipate paying water assessment charges of approximately \$265,000 annually.

On August 3, 2005, we entered into the County Agreement to provide water service to the Arapahoe County Fairgrounds. Pursuant to the County Agreement, funding of \$1.25 million for the construction of “Special Facilities” will come from the County and will be provided as follows: (i) an initial payment of \$397,000 (received in August 2005), and (ii) \$848,000 paid over ten years, which includes interest at 6%, which based on currently scheduled payments will result in us receiving \$286,000 in interest. Upon the delivery of a water rights warranty deed by the County to us for approximately 336 acre-feet of groundwater, the amount payable over ten years will be reduced by approximately \$240,000, which is the value of groundwater.

In accordance with SAB 104, upon completion of construction of the Arapahoe County Fairgrounds facilities and the initiation of water service to the Arapahoe County Fairgrounds in July 2006, we began ratably recognizing deferred tap fee revenues as income. The tap fees received from the County are being recognized in income over the estimate useful life of the constructed assets, or 30 years. For the three months ended November 30, 2006, we recognized water tap revenues of approximately \$3,600. We started recognizing deferred Special Facilities’ funding as revenues per SAB 104 in late fiscal 2006, which will also be recognized over the useful life of the constructed assets. For the three months ended November 30, 2006 we recognized special facility funding revenues of approximately \$10,400.

At November 30, 2006, we had outstanding debt to one related party totaling approximately \$26,500, all other interest bearing notes were repaid or extinguished during fiscal

2006 as further described in the Company's 2006 Annual Report on Form 10-K/A. The remaining note payable is due in October 2007 and does not accrue interest.

Operating Activities

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

Cash used in operating activities was approximately \$433,700, and \$173,100 for the three months ended November 30, 2006 and 2005, respectively. Cash used in operations increased for the three months ended November 30, 2006 over the comparable period in 2005 due to the payment to the FLCC, increased legal expenses being paid related to the Arkansas River water agreement and paying of trade payables.

As a result of the Arkansas River Agreement signed on August 31, 2006, during the three months ended November 30, 2006 we imputed approximately \$1.1 million of interest on the Tap Participation Fees Payable to HP A&M. During the three months ended November 30, 2006 and 2005 we accrued interest on the note receivable from the District of approximately \$5,900 and \$5,000, respectively. The increase is caused by increases in interest rates. We also accrued \$12,800 of interest on the construction proceeds receivable during the three months ended November 30, 2006. We incurred approximately \$90,000 of depreciation and depletion charges. We will continue to provide domestic water and wastewater service to customers in our service area and we will continue to operate and maintain our water and wastewater systems with our own employees.

Investing Activities

We continue to invest in the acquisition, development and maintenance of our water systems. On August 31, 2006 we acquired the Arkansas River water, represented by the shares in the FLCC and certain other real and personal property, in exchange for equity and a Tap Participation Fee payable when we sell water taps. We expended an additional \$35,800 related to legal and engineering costs associated with this acquisition during the three months ended November 30, 2006, which have been capitalized as part of the costs of the Acquired Assets.

We intend to exercise our rights to acquire the next 40% of the Sky Ranch groundwater pursuant to the agreement for the purchase of Denver Aquifer groundwater for \$100,000 in fiscal 2007 (\$50,000 was due in fiscal 2006 and we are currently working with the developer of Sky Ranch on finalizing this purchase. Since the purchase has not been finalized we recorded the \$50,000 as a prepaid item).

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

Cash provided (used) by investing activities for the three months ended November 30, 2006, and 2005 was approximately \$160,200 and (\$1.1) million, respectively. The majority of the cash provided by financing activities in 2006 was from the sale of marketable securities. The majority of the cash used by investing activities in 2005 was from the investing of funds in marketable securities (approximately \$908,100), and by construction expenditures (approximately \$220,200), which was completed in fiscal 2006 and therefore did not recur in the current period.

Financing Activities

Cash (used) provided by financing during the three months ended November 30, 2006 and 2005 was approximately (\$1,100) and \$270,000, respectively. The current period included \$1,100 paid to the escrow agent to be remitted to the CAA holders. During the three months ended November 30, 2005, we received \$270,000 related to the exercise of stock options. We did not receive any cash during the three months ended November 30, 2006 as a result of option exercises because the option holder conveyed mature shares of our common stock as consideration for the exercise price.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist entirely of the CAA, which is more fully described in our 2006 Annual Report on Form 10-K/A.

Impact of Recently Issued Accounting Pronouncements

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

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

In September 2006, the SEC released SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, ("SAB 108"), which addresses how uncorrected errors in previous years should be considered when quantifying errors in current year financial statements and requires registrants to consider the effect of all carry over and reversing effects of prior year misstatements when quantifying errors in current year financial statements. SAB 108 allows registrants to record the effects of adopting the guidance as a cumulative effect adjustment which must be reported as of the beginning of the first fiscal year ending after November 15, 2006. We do not expect SAB 108 to have a significant effect on our financial position or results of operations.

Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

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

Revenue Recognition

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

Proceeds from tap sales and construction fees are deferred upon receipt and recognized in income based on whether we own or do not own the facilities constructed with the proceeds. Tap fees and construction fees derived from agreements for which we construct infrastructure the customer will own are recognized in accordance with Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, whereby we recognize tap fees and construction fees as revenue and costs of construction based on the percentage-of-completion method. Tap fees and construction fees derived from agreements for which we will own the infrastructure are recognized in accordance with Staff Accounting Bulletin No. 104 *Revenue Recognition ("SAB 104")*, whereby the up front fees are recognized ratably over the estimated service life of the facilities constructed, starting at completion of construction. Because we own these facilities, we capitalize construction costs and amortize those as costs of revenue over the assets estimated useful life.

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

Impairment of Water Assets and Other Long-Lived Assets

We review our long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to future undiscounted net cash flows we expect to be generated by the eventual use of the asset (the fair value). If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell. We believe there were no impairments in the carrying amounts of our investments in water and water systems at November 30, 2006.

Accounting for CAA Payments

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

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

As of November 30, 2006, the remaining Participating Interests liability reflected on our balance sheet totaled approximately \$6.5 million, and the contingent liability not reflected on our balance sheet totaled approximately \$12.2 million. For more information see "Note 4 — Participating Interests in Export Water" to the accompanying financial statements.

Tap Participation Fees

On August 31, 2006 we acquired 60,000 acre-feet of Arkansas River water along with real property and other associated rights. Along with common stock issued to HP A&M, we agreed to pay HP A&M 10% of our tap fees on the sale of the next 40,000 water taps, of which, 39,470 water taps remain to be paid (during the due diligence period specified in the Arkansas River Agreement, HP A&M sold certain property rights which pursuant to the Arkansas

River Agreement were deemed in effect Tap Participation Fee payments, the value of these equated to 530 taps under the tap participation section of the Arkansas River Agreement). The Tap Participation Fee is payable when we sell water taps and receive the funds from said water tap sales. The Tap Participation Fees payable to HP A&M were valued based on a discounted cash flow model using highly subjective assumptions and estimates. We will assess the value of the liability whenever events or circumstances indicate the assumptions used to estimate the value of the liability have changed materially. The difference between the net present value and the estimated realizable value is being imputed as interest expense over an estimated development period using the effective interest method beginning September 1, 2006.

Obligations Payable by HP A&M

Certain of the properties we acquired pursuant to the Arkansas River Agreement are subject to outstanding promissory notes with principal and accrued interest totaling approximately \$14.5 million at November 30, 2006. These notes are secured by deeds of trust on the Properties. We did not assume any of these promissory notes and are not responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M. In the event of default by HP A&M, at our sole discretion we may make payments pursuant to the notes and cure the defaults. If we do not cure defaults on the notes, we will lose the Properties securing the defaulted notes. If HP A&M defaults on the promissory notes, we can foreclose on a defined amount of Pure Cycle stock issued to HP A&M being held in escrow and reduce the Tap Participation Fee by two times the amount of notes defaulted on by HP A&M. Although the likelihood of HP A&M defaulting on the notes is deemed remote, we will continue to monitor the status of the notes for any indications of default and changes in the status of the Primary Beneficiary of HP A&M pursuant to FASB Interpretation No. 46(R) *Consolidation of Variable Interest Entities (as amended)*. No indications of default existed as of November 30, 2006.

Royalty and other obligations

Revenues from the sale of Export Water are shown net of royalties payable to the Land Board. Revenues from the sale of water on the Lowry Range Property are shown net of the royalties to the Land Board and the fees retained by the District.

Depletion and depreciation of water assets

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

We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets until realization is more likely than not. Due to the continued net losses we have recorded a valuation allowance equal to the excess of the deferred tax assets over the deferred tax liability as we are unable to reasonably determine if it is more likely than not that deferred tax assets will ultimately be realized.

There is no provision for income taxes because we continue to incur operating losses.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

General. Pure Cycle is exposed to market risks that may impact the *Balance Sheets, Statements of Operations, and Statements of Cash Flows* due primarily to changing interest rates and changes in tap fees and usage rates at our rate based districts. The items exposed to market risk are not entered into for trading purposes. The following discussion provides additional information regarding these market risks.

Interest Rates. The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in diversified short-term investments, consisting primarily of United States Treasury Obligations and other investment grade debt securities. As of November 30, 2006, the fair value of our investments was approximately \$2.4 million with maturity dates through

December 2007. A hypothetical 50 basis point change in interest rates would not result in a material decrease or increase in the fair value of our available-for-sale securities. We have no investments denominated in foreign country currencies and therefore our investments are not subject to foreign currency exchange risk.

Rates and Charges. Our rates and charges are based on the average of our rate based districts and could vary dramatically from year to year. The rates charged by our rate based districts might not provide us sufficient funds to support our operations and capital required to fund construction activities. Based on the increases in taps fees and usage charges at our rate based districts over the last several years, as noted in Table 1 in our 2006 Annual Report on Form 10-K/A, we expect rates and charges to continue to be sufficient to meet our operational and construction needs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedure

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. We necessarily apply judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can only provide reasonable assurance regarding management's control objectives. Our President and Chief Financial Officer reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. As described in Item 9A of our 2006 Annual Report on Form 10-K/A (the "2006 Form 10-K/A"), as of August 31, 2006 we determined that our internal controls over the process for the identification and implementation of the proper accounting for certain transactions was inadequate and resulted in material audit adjustments. As a consequence, our management reported to our audit committee the identification of a "material weakness" (under the standards established by the Public Company Accounting Oversight Board) in our internal controls. In connection with the preparation of the Form 10-Q for the period ended November 30, 2006, management conducted an evaluation of disclosure controls and procedures. Based on that evaluation, management concluded that our disclosure controls and procedures were not effective as of November 30, 2006 due to the material weaknesses described in our management report on internal control over financial reporting included in the 2006 Form 10-K/A. To date, the material weaknesses identified in the 2006 Form 10-K/A have not been fully remediated. Since the material weaknesses described below have not been fully remediated, management continues to conclude that our disclosure controls and procedures are not effective as of the filing date of this Form 10-Q.

Changes in Internal Control Over Financial Reporting and Management's Remediation Initiatives

As noted above, during management's assessment of the effectiveness of our internal controls over financial reporting as reported in our 2006 Form 10-K/A, we identified certain material weaknesses. In an effort to improve our internal controls over financial reporting, we will engage a third party accounting firm to assist us in evaluating complex accounting issues which may arise as a result of transactions we may enter into and otherwise on an as needed basis. No consultations were made with the third party accounting firm during the three months ended November 30, 2006.

Due to an unknown communication error, we inadvertently filed our Form 10-Q for the three and nine months ended May 31, 2006, approximately 30 minutes late. As a result, we have implemented new controls to ensure all future filings are made on a timely basis.

Part II

Item 6. Exhibits

Exhibits

31 - Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith.

32 - Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 - Filed herewith.

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PURE CYCLE CORPORATION

/s/ Mark W. Harding

Mark W. Harding
President and Chief Financial Officer

April 16, 2007

CERTIFICATIONS

I, Mark W. Harding, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Pure Cycle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 16, 2007

/s/ Mark W. Harding

Mark W. Harding
President and 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 Quarterly Report of Pure Cycle Corporation (the "Company"), on Form 10-Q/A for the three months ended November 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Harding, President and 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

Mark W. Harding

President and Chief Financial Officer

April 16, 2007
