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An Emphasis on Ownership of Water Resources in Water-Short Areas Separates Pure Cycle Corp. from Regulated Utilities that also Provide Water and Wastewater Services to Residents and Industrial Applications

**Utilities
Water and Wastewater Services
(PCYO-NASDAQ)**

**Pure Cycle Corp.
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**Mark W. Harding
President and CEO**

BIO:

Mark W. Harding. Mr. Harding joined the Company in April 1990 as Corporate Secretary and Chief Financial Officer. He was appointed President of the Company in April 2001, CEO in April 2005, and a member of the board of directors in February 2004. Mr. Harding brings a background in investment banking and public finance, having worked from 1988 to 1990 for Price Waterhouse's management consulting services where he assisted clients in public finance and other investment banking related services. Mr. Harding is the President and a board member of the Rangeview Metropolitan District and serves on a number of advisory boards relating to water and wastewater issues in the Denver region, including a state-wide roundtable created by the Colorado legislature charged with identifying ways in which Colorado can address the water shortages facing Front Range cities including Denver and Colorado Springs. Mr. Harding earned a B.S. Degree in Computer Science and a Masters in Business Administration in Finance from the University of Denver.

Company Profile:

Pure Cycle owns water assets in sev-

eral river basins in the State of Colorado as well as certain aquifers in the Denver, Colorado metropolitan area. Pure Cycle provides water and wastewater services to customers located in the Denver metropolitan area including the design, construction, operation and maintenance of water and wastewater systems.

The Company develops its water supplies and wastewater reclamation facilities to fully use and reuse its water supplies in Colorado's semi arid climate. Reuse of highly reclaimed wastewater supplies for outdoor irrigation uses through dual water distribution systems are developed as part of the Company's water systems. The Company has exclusive water and wastewater service rights to the 24,000 acre Lowry Range property located in the southeast portion of the Denver metropolitan area well as approximately 1,000 acres of property owned by the Company which is a fully zoned master planned community along the eastern Interstate 70 corridor adjacent to the City of Aurora. The Company currently operates water and wastewater facilities owned by the Company as well as systems owned by other water providers in the region.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Harding, what is the focus of Pure Cycle today?

Mr. Harding: Our focus is to provide high quality, cost effective water and wastewater service to customers in the Denver metropolitan area. We provide domestic water and wastewa-

ter services to residential, commercial, and industrial customers in the Denver metropolitan area. Our business model seeks to vertically integrate all aspects of water and wastewater service from owning the resource, through the Company's valuable portfolio of water rights, developing, constructing owning and operating the infrastructure to divert, treat, store, distribute high quality water to our customers and then collect, treat, and reuse highly reclaimed effluent water for outdoor irrigation uses. This vertically integrated platform allows Pure Cycle to not only provide cost effective, high quality water and wastewater services to our customers, but also allow us to capitalize on the rapidly appreciating value of a scarce and irreplaceable resource in the water short Denver area.

CEOCFO: What do you own, and where are people getting their water?

Mr. Harding: We own a large diversified portfolio of surface water rights in all three of the major river basins in the State of Colorado including the Platte River, the Arkansas River and Colorado River basins. We own high quality groundwater supplies in the Denver Basin aquifer as well as some very valuable water storage sites and surface water rights in close proximity to their point of use in the Denver metropolitan area. In addition to our water portfolio, we have developed and own infrastructure, which diverts, treats, stores and distributes this high quality water to our customers and collects and treats wastewater for reuse in outdoor irrigation systems. Our customers get their water supplies from a blend of surface and groundwater sources as well as highly

treated effluent supplies that are available for outdoor irrigation uses.

CEOCFO: What would surprise people about what it takes to run a water company and have these services, and what are some of the challenges?

Mr. Harding: As long as people can turn on the tap and get good tasting water and can flush their toilets and water goes away, people do not give their access to this high quality and essential service much thought. There is a tremendous amount of infrastructure that goes behind those two functions and for the last 125 years here domestically and throughout the world, water providers have been investing in infrastructure and operating these systems so well as to allow most people to take this service for granite. Most of this infrastructure is sight unseen, because it is below the ground or in unassuming buildings that blend into our communities. Water providers develop a network of reservoirs, storage tanks and wastewater treatment facilities that are seldom exposed to the public, and as long as customers continue to receive high quality water and wastewater service, these services function in an almost seamless fashion. More recently, particularly here out west, there is a heightened awareness that there is physically not enough water to go around. There are more uses for our limited water supplies than there is water available to supply those uses. With scarcity brings a heightened sensitivity by both customers as well as water providers throughout Denver and the west of just how valuable our limited water supplies are and the importance of using and reusing these supplies in an environmentally responsible, sustainable manner to maximize the availability to this limited resource.

CEOCFO: You mentioned competitive sources around the water supplies; are there other companies that people can get their water from, or do you mean it is harder to get the sources?

Mr. Harding: Good question. Colorado and the Denver region provide an interesting illustration of scarcity value of a resource and protected property rights to a commodity. To illustrate, the Denver metropolitan area with a population of 3 million people has over fifty different water providers. With the exception of Pure Cycle all these water providers are government owned water providers that are either departments within municipal cities or independent municipal governments. Water has historically been used as an economic driver to allow cities to attract developments to their city (and the concurrent revenues associated with such development mostly from commercial sales tax receipts) over competing jurisdictions. As cities compete for

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development, water availability became an important factor in attracting development to their jurisdiction versus a competing jurisdiction. In many instances cities overcommitted to serve annexations with water they did not yet own and found it costly or uncertain when acquiring new water supplies to service committed annexations. Cities have limited resources to be able to purchase new water supplies, as few if any cities have surplus revenues; they have had to turn to using debt to purchase new water supplies. This too has proven difficult as cities can use either general obligation debt, which must be approved by voters, or revenue obligation debt that must forecast future revenues sources. Voters are reluctant to add new taxes for undeveloped properties as they gain little if any value from newly annexed lands, and forecasting revenues is tricky

even for the most experienced professionals, thus adding new water supplies has proven a very tricky proposition for government water providers.

The issue comes down to one of how water can be inventoried. In most cases new water supplies are needed for future growth, which may take years, even decades before projects are fully developed. In order for new projects to start, developers need assurances that their water sources are secure for the full build-out of the project lest they find themselves in a situation where their project runs out of water. Acquiring water requires large up-front capital investments that if financed using debt, can become burdensome for the entity inventorying that supply. In a perfect world, revenues from new connections (tap fees) would match the cost of acquiring and developing new water supplies, however we seldom live in that perfect world and municipal debt far outstrips municipal revenues. Thus, area cities and municipalities have sought to move away from the business of forecasting growth and inventorying large supplies of water pushing that role to the developers. If developers seek to

change the zoning of a property, they must provide sufficient water up-front for their desired zoning requests. Developers are already burdened with road, drainage, schools and other infrastructure costs and are ill equipped to incur additional large capital outlays to start their projects. This is precisely the role Pure Cycle provides for cities and developers with its available water supplies.

CEOCFO: Pure Cycle just entered an oil and gas lease; how does that fit with your strategy?

Mr. Harding: Late last year the Company purchased a 931 acres tract of land along the Interstate 70 corridor. The property is a fully entitled Master Planned Community in which the Company had committed to provide water service as part of the zoning request by the previous owner. In

Colorado, particularly in the Denver region, property owners must demonstrate that they have adequate water supplies for their projects as a part of their change of zoning requests, the Company had committed to service the property with a portion of its water portfolio back in 2005. The previous owner fell victim to the recession and downturn in housing and filed for bankruptcy in 2008. While the previous owner's bankruptcy has no bearing on Pure Cycle or our water supplies, our commitment to provide water to the property was held with the property, and any new owner would pick up our service commitment as part of acquiring the property. The Company evaluated purchasing the property at an attractive price to add value to our water portfolio understanding any investments into water and wastewater systems would certainly increase the value of the land. We reasoned as long as we were making investments in utilities that increased land values; if we could acquire the property at an attractive price, that value would be better placed for our shareholders rather than another property owner.

The Company does not intend to develop the property, rather it will seek to partner with a developer where Pure Cycle develops the water and wastewater systems and the developer builds the project. One of the benefits of the property is it came with mineral interests on approximately 640 acres of the 930 acres. Colorado is currently experiencing very aggressive mineral play in an oil formation known as the Niobrara Formation. There has been a lot of activity from large Exploration and Production companies developing the Niobrara formation in northeast Colorado and southeast Wyoming. Shortly after we had completed the property acquisition, we were approached by a num-

ber of large oil companies as to whether or not we would have an interest on leasing the property for this Niobrara oil and gas play. One of the important aspects when considering an oil lease was that we preserve the Master Planned Community feature of this project as a component of any potential mineral lease.

We were working with a number of different companies and ultimately the company selected Anadarko, who presented the best opportunity and was the most sensitive to the property's zoning and development opportunities. Our agreement seeks to jointly develop oil and gas interests together with our water assets all in the context of a residential community. One of the things that was important to us as a water utility is if we had an industrial site that had oil and gas wells and facilities, was that we could co-locate our water facilities there so we did not diminish any developable property. Anadarko was very cooperative and willing to extend that invitation to be able to not only develop oil and gas resource, but also allow us to develop the water resources through co-location of facilities. It looks to be a very attractive opportunity; one that we are very excited about.

CEOCFO: What is the financial picture for Pure Cycle today?

Mr. Harding: The Company's financial picture has never looked better. Certainly, we are sensitive to the housing market. 2010 looks better than 2009, and 2011 looks better than 2010. Housing starts in Colorado and the Denver region are probably healthier than most other major metropolitan markets but still are nowhere near their 2006 levels. This year our total new single family housing starts look to between 5,000 and 6,000 units and that is down significantly from where they were in 2006, but still a

growing market. The interesting component of our land acquisition was that its zoning was emphasizing a fairly high density seeking to tap the entry level market where I believe the majority of new starts are occurring. Apart from housing, the Company's oil opportunity and the potential to monetize certain water storage assets with neighboring water providers look attractive.

CEOCFO: In closing, why should potential investors pay attention to Pure Cycle?

Mr. Harding: The key drivers for the Company continue to be the scarcity value of water in a water short market. Throughout the west and particularly here in Colorado, water will continue to grow in value and it will be worth more tomorrow than it is today. We have one of the largest unallocated portfolios of water in a market where water continues to grow in value. In addition, we have been able to accumulate our portfolio under attractive terms as the company has a little over \$100 million worth of water assets, with no debt and maintain a low operating overhead. We have an operating cash burn rate of about \$1.3 million a year, and a cash position of about \$6.5 million. We have a number of valuable assets coming into play in the latter part of 2011 and are looking for a terrific year. These new acquisitions help diversify against the local housing recovery, and will generate substantial returns to our shareholders. Housing will continue to improve, and that will continue to increase the value of water rights. In addition, our ability to provide service to existing water providers, cities and municipalities that have a need for additional water supplies is a tremendous value to the region, for us as a Company and for our shareholders.



PURE CYCLE

a water and wastewater services company

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