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Pure Cycle

Pure Cycle is a company with assets and present and future cash flows from five business areas: water and wastewater utilities, supplying water to hydraulic fracturing operations in Colorado, development of a real estate development project on the I-70 Corridor, developing oil & gas assets, and managing and developing a major farming operation in southeast Colorado.

Industrials - Agriculture May 6, 2013

PCYO: Tremendous asset pool, future cash streams; initiating w/STRONG BUY; PT $12

(PCYO - $6.09) STRONG BUY

Key Points

- **We are initiating research coverage on Pure Cycle with a STRONG BUY rating and price target of $12.**
- **PCYO was founded and incorporated in 1976 and was largely viewed as a company that was well positioned to build operations around a water and wastewater utility until the economic downturn of 2007-2009. As the economy collapsed and hopes for real estate and utility development around PCYO's water asset base diminished, the stock fell over 80% in just a few years.**
- **PCYO has been diligently going about its business despite the delayed utility and residential development. It has been progressing with plans for the utility and residential development, has taken control of its farming assets were previously owned by others, and is working to develop other income streams.**
- **We now view PCYO as a pool of assets that are generally tied to real estate and natural resources.** In general they represent five long-term asset/cash flow opportunities including a potentially fast growing water and wastewater utility in the I-70 Corridor region of the Denver MSA, a significant real estate development in the same area, the potential for substantial oil & gas royalties, participation through water supply agreements to the hydraulic fracturing market in eastern Colorado, and a large farmland asset that is poised to undergo considerable operational enhancement.
- **PCYO in the long run represents a significant opportunity to build out a substantial and highly profitable water and wastewater utility in the eastern reaches of the Denver MSA (the I-70 Corridor).** This asset includes 30,000 acre feet of water and could eventually serve tens of thousands of customers. This business is modest at present, but this region is expected to see tens of thousands of housing assets built in the next 25 years.
- **Real estate development at Sky Ranch, lots starts selling 2015.** Within this corridor PCYO also owns the Sky Ranch property, 931 acres located on the south side of I-70 near the Denver International Airport. This property is being developed as a Master Planned Community Development Project with plans for an eventual 5000 housing units. We believe site work will begin on this project in 2014 with first lots sold in 2015.
- **Sky Ranch also holds potentially valuable oil & gas reserves.** ConocoPhillips (COP – not rated) is developing this asset and successful production development here could add millions of dollars annually in royalties to PCYO.

Financial Summary

Rev(mil)	2012A	2013E	2014E
Mar	$0.068	$0.438A	$0.781E
Jun	$0.050	$0.435E	$0.911E
Sep	$0.058	$0.504E	$1.061E
Dec	$0.110	$0.594E	$1.131E
FY	$0.284	$1.972E	$3.884E
P/Sales	nm	nm	nm

EPS	2012A	2013E	2014E
Mar	$(0.06)	$(0.06)A	$(0.04)E
Jun	$(0.53)	$(0.04)E	$(0.03)E
Sep	$(0.06)	$(0.05)E	$(0.03)E
Dec	$(0.06)	$(0.04)E	$(0.03)E
FY	$(0.72)	$(0.19)	$(0.13)E
P/E	nm	nm	nm

Price:	$6.09
52-Week Range:	$6.16-$1.87
Target:	$12.00
Rating:	STRONG BUY
Shares Outstanding:	24 mil
Mkt. Capitalization:	$151 mil
Ave. Volume:	49,537
Instit. Ownership:	50%
BV / Share:	$2.90
Debt/Tot. Cap. (ex-tap):	15%
Est. LT EPS Growth:	NM

- **PCYO is also entering the market for supplying water to exploration & production companies using hydraulic fracturing (fracking) to access oil & gas.** There are several major oil & gas formations within a reasonable distance of PCYO's water holdings. Supplying water to these fields could provide substantial revenue growth and extremely high margins over the next 5-10 years.
- **PCYO has substantial agriculture assets poised to realize higher values and income.** PCYO also owns over 16,000 acres of farmland in southeast Colorado that represent a substantial worth. This land is irrigated and in an area where agriculture-focused real estate with irrigation rights has tremendous value. We believe PCYO is just at the beginning of land process that will transform this property from a landlord/tenant structure to a much more profitable model of infrastructure improvement (center pivot irrigation), crop-sharing, and joint ventures to move further into the production chain. This could create both enhanced real estate values and long-term business value through significant operational income.
- **Our $12 price target is based on a sum of the parts analysis that assigns value for each of the five businesses we have identified above.** Our price target assumes the following: 1). Sky Ranch site development starts it 2014, giving visibility for 2015 lot sales that should mark the first visible step in building out a major regional water utility and realizing revenue and income from lot sales; 2). Expansion of the business segment supplying water to the hydraulic fracturing market; 3). Baseline assumptions for royalties on PCYO's oil & gas holdings on Sky Ranch being developed by ConocoPhillips; and 4). Implementation of strong rent management, operational improvements, and potential joint venture operations in PCYO's farming operations.

INVESTMENT SUMMARY

Pure Cycle is a water, real estate, and farming centric company with additional exposure to the oil & gas industry through both supplying water to hydraulic fracturing operations and receiving royalties for exploration & development activities on some of its land. First and foremost, PCYO is going to develop a major regional water and wastewater utility serving the eastern area of the Denver MSA. Second of importance in our view are significant agricultural real estate assets encompassing some 16,000 acres in southeastern Colorado. The third major focus is developing a Master Planned Real Estate Development near the Denver International Airport in Arapahoe County, which will include 4,850 dwelling units and over one million square feet of commercial development. We see significant upside for this stock but note it is speculative and our expectations are long-term in nature. We rate PCYO a STRONG BUY and have a $12 price target.

PURE CYCLE IS POISED TO EVENTUALLY BENEFIT FROM MULTIPLE STREAMS OF GROWING CASH FLOWS

Our price target of $12 for PCYO is a sum of the parts for what we view as PCYO's major asset and/or income streams. We assign the following values to our 12-month price target: $6.01 for the NPV of the future water and wastewater utility; $1.22 a share for the hydraulic fracturing water supply business; $0.49 a share for oil & gas royalties; $1.50 a share for the net present value of cash flows for developing Sky Ranch ($1.14 a share for the residential lots and $0.36 a share for the commercial development); and $2.65 a share for the farming assets in southeast Colorado. We walk through our valuation methodology for each of these parts following.

Water and wastewater utility business provides large long-term opportunity

The biggest long-term opportunity for PCYO is to build its water and wastewater utility business. PCYO's current presence is minimal here, but major growth is expected along Denver's I-70 Corridor which should benefit PCYO as it provides these services to a large part of this region. The first part of this effort is likely to be the development of Sky Ranch, a 931-acre parcel approved for 4,850 dwelling units in Arapahoe County, Colorado. And by 2020 predictions call for dozens of developments within the east Denver MSA that could be served by PCYO's operations.

Valuations of publicly-held water and wastewater companies provide some interesting insights into this portion of PCYO's operations. First, these businesses are conservatively funded with debt-to-enterprise value of about 37%. Second, EVE/customer averages $4,395 in a range of $2,749-$6,345.

Valuations of Water and Wastewater Companies

Company	Symbol	Price	Shares	Market Cap.	Net Debt	EV	Customers	EV/ Customer
Acqua America	AWR	31.93	140,307,000	4,480,002,510	1,663,854,000	6,143,856,510	968,357	6,345
American States Water	AWR	54.91	19,304,000	1,059,982,640	312,305,000	1,372,287,640	279,036	4,918
American Water Works	AWK	41.88	177,412,000	7,430,014,560	5,551,980,000	12,981,994,560	3,158,000	4,111
Artesian Resources	ARTNA	23.44	8,720,000	204,396,800	106,751,000	311,147,800	79,000	3,939
California Water Services	CWT	20.15	41,908,000	844,446,200	531,935,000	1,376,381,200	500,700	2,749
SJW	SJW	25.75	18,688,000	481,216,000	353,768,000	834,984,000	263,000	3,175
York Water	YORW	18.74	12,945,000	242,589,300	80,963,000	323,552,300	63,273	5,114
Totals				14,742,648,010	8,601,556,000	23,344,204,010	5,311,366	4,395

Sources: Latest SEC filing for each company.

We present several scenarios below on how PCYO might develop its water and wastewater business over the next ten years, and how this might be valued based on the above metrics. In this table we assume that PCYO builds its customer base out using the same proportion of debt that the industry employs, presently 37%.

Valuing PCYO's Long-Term Water Utility Potential Value to Shareholders

Scenario	EV/ Customer	Customers	EV	Debt	Equity Value	Value per PCYO share using discount rate of: 2%	3%	4%	5%
Lowest EV/customer	$ 2,749	25,000	$ 68,725,000	$ 25,428,250	$ 43,296,750	$ 1.45	$ 1.30	$ 1.17	$ 1.05
	2,749	50,000	137,450,000	50,856,500	86,593,500	2.90	2.60	2.34	2.11
	2,749	75,000	206,175,000	76,284,750	129,890,250	4.35	3.90	3.51	3.16
	2,749	100,000	274,900,000	101,713,000	173,187,000	5.79	5.21	4.68	4.21
Average EV/customer	4,395	25,000	109,875,000	40,653,750	69,221,250	2.32	2.08	1.87	1.68
	4,395	50,000	219,750,000	81,307,500	138,442,500	4.63	4.16	3.74	3.37
	4,395	75,000	329,625,000	121,961,250	207,663,750	6.95	6.24	5.61	5.05
	4,395	100,000	439,500,000	162,615,000	276,885,000	9.26	8.32	7.48	6.73
Highest EV/customer	6,345	25,000	158,625,000	58,691,250	99,933,750	3.34	3.00	2.70	2.43
	6,345	50,000	317,250,000	117,382,500	199,867,500	6.69	6.01	5.40	4.86
	6,345	75,000	475,875,000	176,073,750	299,801,250	10.03	9.01	8.10	7.29
	6,345	100,000	634,500,000	234,765,000	399,735,000	13.37	12.01	10.80	9.72

Source: Feltl and Company estimates based on industry averages

For our price target we are using the following scenario from above: average EV/customer of $6,345 and 50,000 customers. We are using the highest valuation because we believe PCYO is positioned to deliver the fastest internal growth in this segment given its unique position. This implies an enterprise value of $219.8mm, and subtracting $81.3mm of debt leaves equity value of $138.4mm. Dividing this by 24.0mm shares and then discounting this target back 11 years at 3% provides our net present value per PCYO share of $6.01. We would note that a fully built out water utility with 180,000 SFEs would imply that eventually PCYO's water services business will be worth $20 or more per share.

Frac water provides immediate cash flows that will build for several years

We think PCYO's business supplying water to E&P companies for hydraulic fracturing is growing rapidly and about to become exceptional profitable. We would not be surprised to see PCYO generating revenue of $3-$6mm annually from this segment with gross profit margins near 70% or better and operating margins near 65%. We assign a value of $19.5mm to $39.0mm to this business, and use the midpoint of $29.3mm or $1.22 a share for purposes of our price target.

Oil & gas royalties are difficult for us to gauge, we assign them modest value

PCYO's agreement with ConocoPhillips could provide substantial income. PCYO received an upfront fee (amortized over three years) to hold this property as it is developed. PCYO has noted that just one pad site here with four wells generating 300bpd would generate $8.5mm in annual royalties for PCYO. Although we are optimistic regarding the possibility of such income from this asset, we are giving it 50% odds of occurring and hence assuming half of that economic impact in our model starting in 2015.

Estimated Impact of Oil Royalties from Sky Ranch

Year	Royalties	Income Taxes	Net Income From Royalties	NPV Discounted 4%/year	NPV Discounted 6%/year
2015	$ 8,500,000	$ 3,400,000	$ 5,100,000	$ 4,903,846	$ 4,811,320.8
2016	5,950,000	2,380,000	$ 3,570,000	3,300,666	3,177,287
2017	4,165,000	1,666,000	$ 2,499,000	2,221,602	2,098,209
2018	6,375,000	2,550,000	$ 3,825,000	3,269,626	3,029,758
2019	4,462,500	1,785,000	$ 2,677,500	2,200,710	2,000,784
2020	3,123,750	1,249,500	$ 1,874,250	1,481,247	1,321,272
2021	4,781,250	1,912,500	$ 2,868,750	2,180,014	1,907,883
2022	3,346,875	1,338,750	$ 2,008,125	1,467,317	1,259,922
2023	2,342,813	937,125	$ 1,405,688	987,617	832,024
2024	3,585,938	1,434,375	$ 2,151,563	1,453,519	1,201,421
				$ 23,466,164	$ 21,639,882
Divide 2 to reflect 50% weighting to success				2	2
NPV of future oil & gas royalties from Sky Ranch				$ 11,733,082	$ 10,819,941
Divide by PCYO shares outstanding				24,037,000	24,037,000
NPV per share of future oil & gas royalties from Sky Ranch				$ 0.49	$ 0.45

Source: Feltl and Company estimates

Sky Ranch lot sales and commercial development will generate substantial long-term cash and income

We see two significant cash and income streams from Sky Ranch beyond the long-term value of the water and wastewater services. First, we see substantial returns from the development of 4,850 residential lots on this parcel. The following table shows our assumptions regarding the development and returns of the residential lots. PCYO believes the first lots will sell in 2015, and in our valuation model we build lot sales gradually from 75 that year to 500 per year during 2019-2026. We assume that lot prices for the first four years sell for an average of $12,500 each, and then average $15,000 for the rest of the development cycle thereafter. We assume the cost basis of these lots averages $900 each. Our model provides one-time pretax gains building from just under $1mm in 2015 to $5.8mm a year 2019-2026. We then adjust these gains for a 40% tax rate and discount them at 4% to 6% a year to arrive at the NPV per share of this project, an estimated $1.00-$1.14 a share (we use $1.14 in our valuation).

Estimated Progression & Impact of Sky Ranch Lot Sales

Year	Lots Sold	Revenue/ Lot	Cost/ Lot	Gain/ Lot	One-time Gains on Sale of Lots	Income Taxes	Net one-time Gains on Sales of Lots	NPV Discounted 4%/year	NPV Discounted 6%/year
2015	75	$ 12,500	$ 900	$ 11,600	$ 870,000	$ 348,000	$ 522,000	$ 501,923	$ 492,453
2016	150	12,500	900	$ 11,600	1,740,000	696,000	1,044,000	965,237	$ 929,156
2017	250	12,500	900	$ 11,600	2,900,000	1,160,000	1,740,000	1,546,854	$ 1,460,938
2018	400	12,500	900	$ 11,600	4,640,000	1,856,000	2,784,000	2,379,775	$ 2,205,189
2019	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,860,306	$ 2,600,458
2020	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,750,295	$ 2,453,263
2021	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,644,514	$ 2,314,399
2022	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	3,090,820	$ 2,653,954
2023	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,971,942	$ 2,503,731
2024	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,857,636	$ 2,362,010
2025	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,747,727	$ 2,228,311
2026	475	15,000	900	$ 14,100	6,697,500	2,679,000	4,018,500	2,509,943	$ 1,997,071
								$ 27,826,972	$ 24,200,933
Divide by PCYO shares outstanding								24,307,000	24,307,000
NPV of future Sky Ranch residiential lot sales								$ 1.14	$ 1.00

Source: Feltl and Company estimates

The farmland is probably worth far more than most investors realize

Recent farmland sales in Colorado have seen remarkably strong prices. In several counties irrigated cropland with strong water rights have seen prices reaching $6,000 or more per acre. Several transactions in Colorado even surpassed $8,000 an acre for flood irrigated farmland, and one county – Weld (north central part of state) saw average sale prices for flood irrigated land reach $6,800 an acre in 2012.

We believe that PCYO would achieve similar pricing for its 16,000 acres of farmland. We assume that 13,500 acres of PCYO's land is flood irrigated land and worth $6,000 an acre or $81mm, and that the remaining 2500 acres is worth $2,000 an acre or $5mm, for a total gross value of $86mm. We assume a basis on the agriculture portion of this land near $30mm, implying PCYO would gain $56mm pretax or $33.6mm after tax selling this asset. This provides implies a total value per share to PCYO shareholders of $2.65 a share.

SUBSTANTIAL LONG-TERM OPPORTUNITY IN WHOLESALE WATER AND WASTEWATER SERVICES

PCYO's greatest long-term opportunity to be shareholder wealth is the through the development of water and wastewater services in a trade area that can hold up to 180,000 single family equivalents (SFEs). Single family equivalents are the amount of water that a family of four on a standard sized lot would use in a year, about 0.4 acre feet of water.

The Rangeview Water Agreement allows PCYO to design, construct, operate and maintain the District's water and wastewater treatment systems with the 24,000 acre service area on the Lowry Range. This contract runs through 2081. Export water is available to PCYO to use as wanted. The capacity of water for use on Lowry Range is 46,500 SFE units, and Export Water available for another 33,600 SFE units.

PCYO has a 1982 contractual right to purchase water from the East Cherry Creek Valley Water and Sanitation District's Land Board system, which includes 8 wells and over ten miles of buried water pipeline. In May 2012 PCYO entered into an agreement to operate the ECCV facilities, and can use this system to provide water to commercial and industrial customers – which should well position PCYO to service the drilling and hydraulic fracturing market for oil and gas wells.

The Lowry Range is 27,000 acres of size, about 40 square miles. PCYO has exclusive rights to furnish water and wastewater services to approximately 24,000 acres of this parcel.

Developing a major water company can create immense shareholder wealth. If PCYO were to eventually develop 100,000 SFE's and did so in a way using typical leverage for a water utility, it would create equity valued at $173mm to $400mm based on the average valuations in among PCYO's publicly-held peers.

Valuing PCYO's Long-Term Water Utility Potential Value to Shareholders

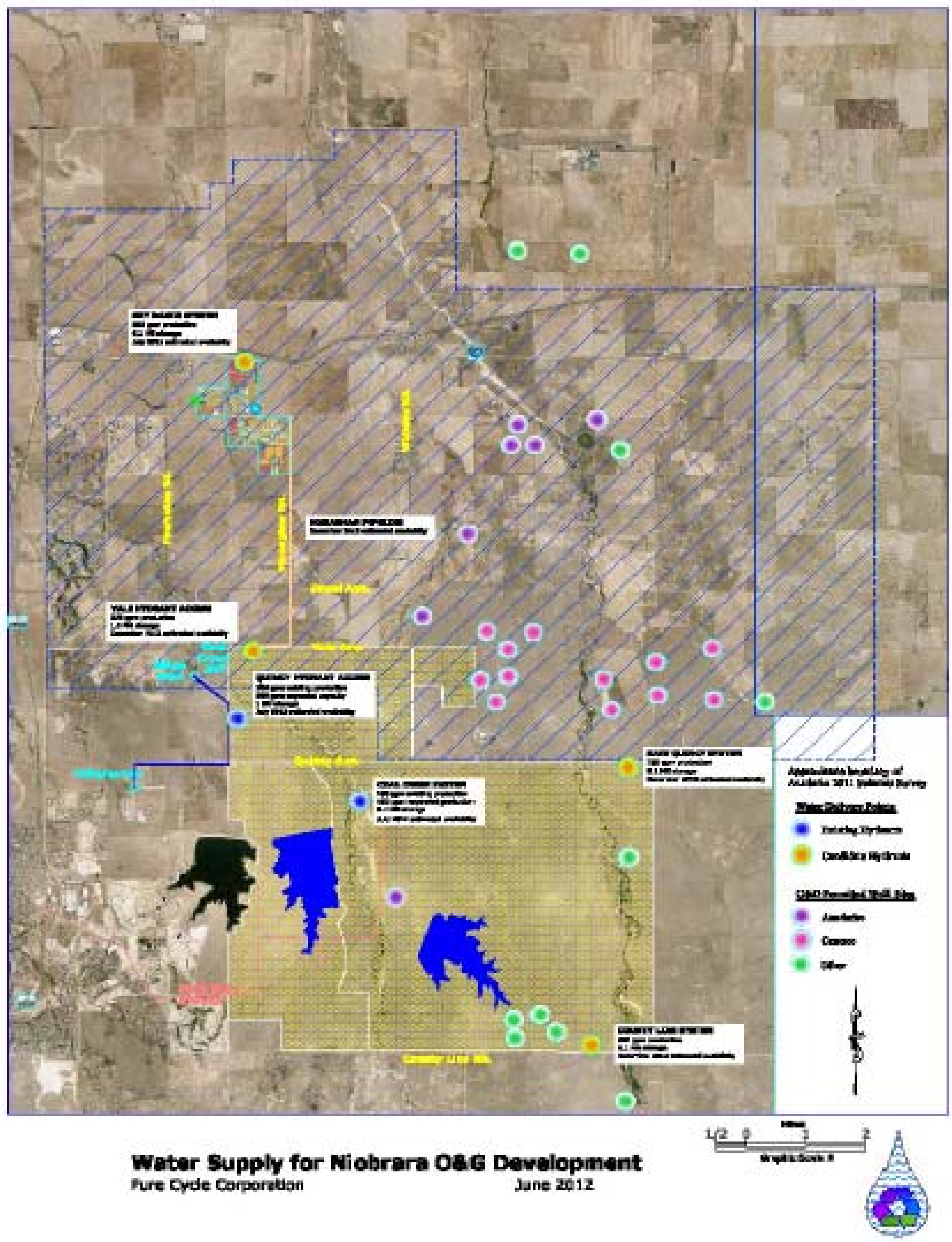
Scenario	EV/ Customer	Customers	EV	Debt	Equity Value	Value per PCYO share using discount rate of: 2%	3%	4%	5%
Lowest EV/customer	$ 2,749	25,000	$ 68,725,000	$ 25,428,250	$ 43,296,750	$ 1.45	$ 1.30	$ 1.17	$ 1.05
	2,749	50,000	137,450,000	50,856,500	86,593,500	2.90	2.60	2.34	2.11
	2,749	75,000	206,175,000	76,284,750	129,890,250	4.35	3.90	3.51	3.16
	2,749	100,000	274,900,000	101,713,000	173,187,000	5.79	5.21	4.68	4.21
Average EV/customer	4,395	25,000	109,875,000	40,653,750	69,221,250	2.32	2.08	1.87	1.68
	4,395	50,000	219,750,000	81,307,500	138,442,500	4.63	4.16	3.74	3.37
	4,395	75,000	329,625,000	121,961,250	207,663,750	6.95	6.24	5.61	5.05
	4,395	100,000	439,500,000	162,615,000	276,885,000	9.26	8.32	7.48	6.73
Highest EV/customer	6,345	25,000	158,625,000	58,691,250	99,933,750	3.34	3.00	2.70	2.43
	6,345	50,000	317,250,000	117,382,500	199,867,500	6.69	6.01	5.40	4.86
	6,345	75,000	475,875,000	176,073,750	299,801,250	10.03	9.01	8.10	7.29
	6,345	100,000	634,500,000	234,765,000	399,735,000	13.37	12.01	10.80	9.72

Source: Feltl and Company estimates based on industry averages

ENTRY INTO NIOBRARA/HYDRAULIC FRACTURING MARKET WILL PROVIDE SIGNIFICANT CASH FLOWS

PCYO is expanding into supply water for hydraulic fracturing in the Niobrara formation of eastern Colorado. Each horizontal well in the Niobrara Formation will require between 2.0mm and 5.0mm gallons of water to drill and frac each well, which equates to selling and water to between 15 and 39 SFE's for a year. We estimate that each well drilled will require about $45,000 of water at exceptionally high margins, somewhere between 65% and 80% depending on logistics and other issues.

The following aerial map shows ongoing hydraulic fracturing projects near PCYO's water supply. The following aerial map is sourced from PCYO's 10-k and is a little difficult to discern. Essentially the purple, red, and green dots indicate pad sites for drilling and hydraulic fracturing wells and the blue and yellow dots represent water supplies.



SIGNIFICANT POTENTIAL ASSET VALUE AND CASH FLOWS FROM AGRICULTURE LANDS

PCYO owns the Arkansas River Water and Land, whose primary assets are 16,000 acres of land being used for agriculture purposes in southeastern Colorado and 60,000 surface feet of water rights in the Arkansas River. Ownership in these water rights are represented by 21,600 shares of Fort Lyon Canal Company which operates the 110-mile long Fort Lyon Canal between La Junta, CO and Lamar, CO.

Over the long term PCYO plans to change use of this water from agriculture to municipal and industrial purposes. PCYO believes 40,000 of 60,000 acre feet will be available for this, with the remaining 20,000 acre feet used for agriculture operations.

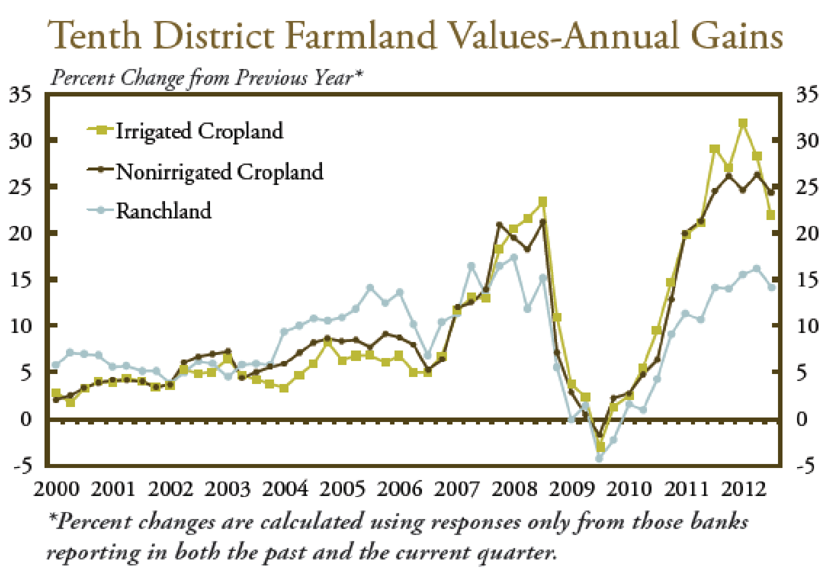
PCYO is currently leasing land and water area to area farmers. Rents average just under $100 an acre bringing in $1.2mm in annual revenue to PCYO. We believe substantial opportunity exists for higher rents, probably 50% higher just to realize market averages. PCYO can do several things to enhance its land beyond market average levels.

For one, it can add center pivot irrigation to the land which lifts the relative rents farmers are willing to pay. We believe PCYO plans to implement placement of center pivots starting next year, and on such properties will change its rent structure to crop sharing arrangements where PCYO will receive a portion of the revenue from the parcel compared to a fixed rent amount.

How might this work? Assume that cash rents average $120 an acre next year. Crop share rents typically provide one-third of the crop value to the landlord in return for use of the land. Corn irrigated with center pivots in southeastern Colorado can yield 150-200 bushels per acre. With December corn futures priced at $5.36 a bushel, this implies total revenue of $804 to $1,072 and crop shared rent payments of $265 to $354 to PCYO. Eventually we believe a majority of PCYO's agriculture land could be under center pivots. This implies rent revenue could double from current levels.

Other activities could involve entering the farming business directly (as opposed to renting farmland to others or crop sharing) and undertaking joint ventures to create value-added processing activities to complement the land. Examples of this would include seed production, grain and forage storage, and supply ties to feeding or dairy operations.

Farmland valuations in Colorado have seen record levels in recent months. Just over a year ago 660 acres sold in Yuma, CO for $5000 an acre or $3.3mm. At that time prices in that area were up 25% to 40% from year-earlier levels. Weld County, CO recently reported that flood irrigated land sold for an average $6,800 in 2012 and land under center pivots sold for $7,000 an acre. Kansas City Fed has said that prices in the Mountain States for irrigated farmland have risen 16.5% in the year ending September 30, 2012.



Source: Tenth District Federal Reserve Bank (Kansas City, MO)

Farmland Value Gains by State

*Percent change from the previous year***

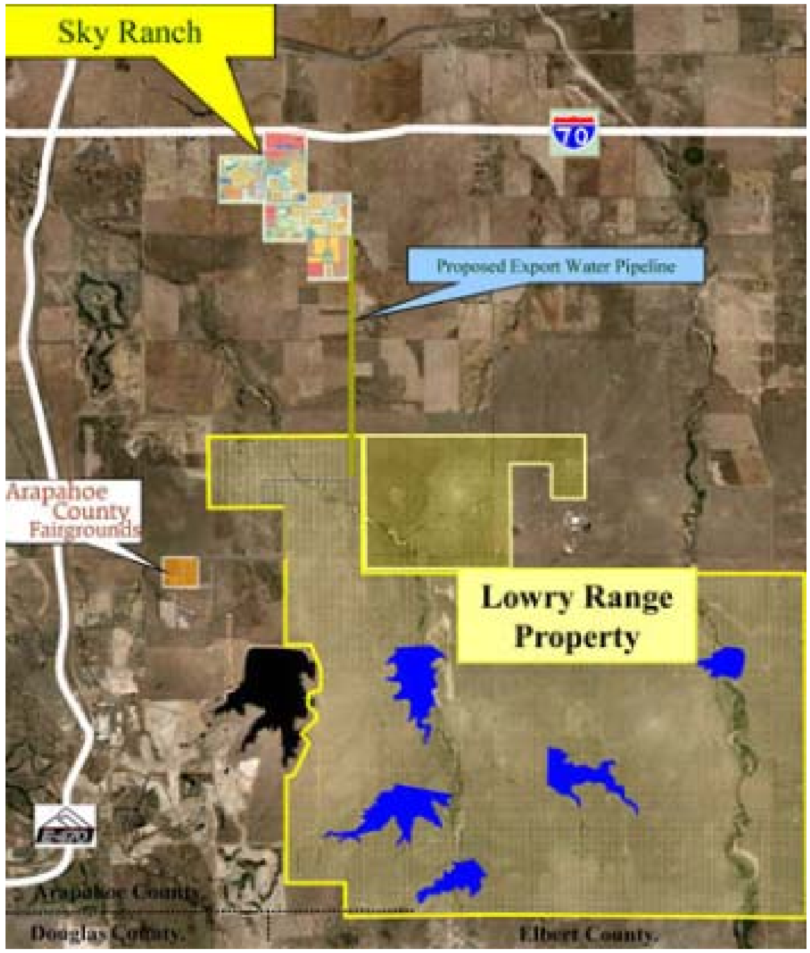
	Non-irrigated	Irrigated	Ranchland
Kansas	22.3	25.0	17.4
Missouri	22.8	n/a***	8.3
Nebraska	30.2	23.3	16.8
Oklahoma	12.9	10.8	15.3
Mountain States	18.8	16.5	13.3
District	24.4	21.9	14.3

*** Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.*
**** Not reported due to small sample size.*

Source: Tenth District Federal Reserve Bank (Kansas City, MO)

Sky Ranch – oil & gas royalties, water supply depot, and – eventually – nearly 5000 homes

One of PCYO's more intriguing assets is a 931-acre parcel that the Company plans to develop into a Master Planned Real Estate Development. This property is located on the eastern edge of the Denver MSA and about 10 miles south of the Denver International Airport. On the aerial photo below (source: PCYO website) you can see the Sky Ranch property, the E-470 toll way just to the west, and the development encroaching from the southwest.



The two most immediate revenue generators from Sky Ranch likely include development of its oil & gas reserves and the establishment of a water depot to serve and support hydraulic fracturing demand from Adams County.

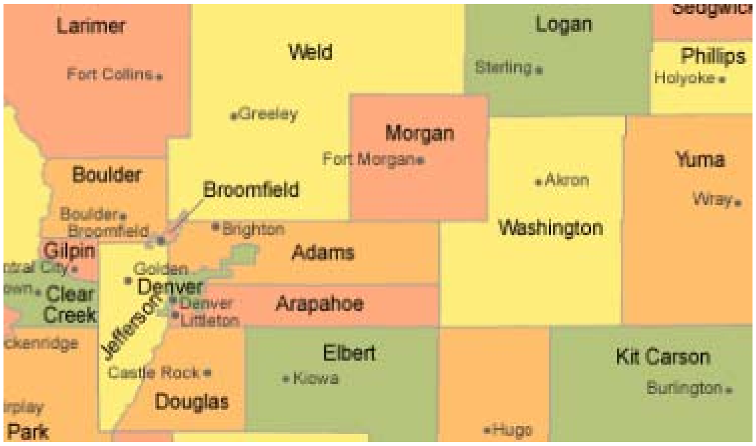
Oil & gas royalties could drive meaningful royalties for PCYO

PCYO entered into a Paid-Up Oil and Gas Lease and Surface Lease Agreement on March 10, 2011 with Anadarko E&P Company, L.P., a wholly-owned subsidiary of Anadarko Petroleum Co. (APC – not rated). PCYO received an up-front payment of $1,900 per net mineral leased acre or $1,243,000, and will be paid a 20% gross royalty from the sale of oil and gas produced on Sky Ranch. On January 24, 2013, this agreement was assigned by Anadarko E&P Company to Burlington Resources Oil & Gas Company, a wholly-owned subsidiary of ConocoPhillips Company. The lease has a three-year term with a two-year renewal clause that Burlington Resources can renew at its discretion which would require another $1.243mm payment to PCYO if renewed.

We think it is likely that this field will be developed successfully by ConocoPhillips and provide PCYO with reasonable to possibly substantial cash flows. Simplistically we will simply consider just the oil aspects of this production. Production of 300bpd and oil priced at $90 a barrel would produce about $1.8mm of revenue to PCYO. Conversely, sharply higher production of 1300bpd would with the same pricing would provide PCYO with about $7.7mm of revenue.

Water depot for hydraulic fracturing needs in Adams County

Sky Ranch is situated on the south side of I-70 and has direct interstate access. This will allow PCYO to develop a water depot that will be able to supply the water need for fracking in Adams County, located just a few miles north and northeast of Sky Ranch.



Long-term development of nearly 5000 housing units, retail, business park, and more

Two Preliminary Development Plans have been approved on Sky Ranch, one for the initial 772 acre Sky Ranch and the other for the 159 acre parcel known as The Hills at Sky Ranch. The provide for 4850 housing units, 350,000 square feet of big box retail development, 627,000 square feet of neighborhood commercial development, and other uses further delineated below.

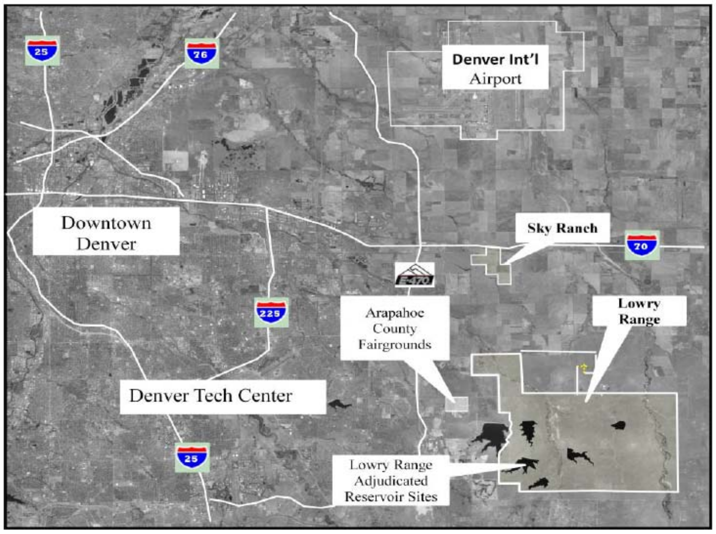
Sky Ranch Preliminary Development Plans

Uses of property	Size
Big box retail	350,000 square feet
Business park	253,000 square feet
Civic Uses	627,000 square feet
Single family	3,198 dwelling units
Single family attached	1,139 dwelling units
Multi-family	513 units

Source: Arapahoe County, CO and Pure Cycle.

We believe PCYO will realize considerable proceeds from this development. Lots in the fringes of the Denver MSA are selling for prices near $50,000 to $60,000 per unit, essentially markets for entry-level housing (defined in Denver MSA as new housing costing less than $300,000 per unit).

PCYO's Denver area assets:



We believe PCYO will receive two cash flow streams from developing these lots. First will be the lot sales themselves. We expect PCYO will receive an average of $12,500 per lot for each lot sold, against which it has a basis of $900. This will create a one-time gain on the sale of real estate below the revenue line of $11,600 for each lot sold. We assume this income will flow as follows on our forward basis:

Estimated Progression & Impact of Sky Ranch Lot Sales

Year	Lots Sold	Revenue/ Lot	Cost/ Lot	Gain/ Lot	One-time Gains on Sale of Lots	Income Taxes	Net one-time Gains on Sales of Lots	NPV Discounted 4%/year	NPV Discounted 6%/year
2015	75	$ 12,500	$ 900	$ 11,600	$ 870,000	$ 348,000	$ 522,000	$ 501,923	$ 492,453
2016	150	12,500	900	$ 11,600	1,740,000	696,000	1,044,000	965,237	$ 929,156
2017	250	12,500	900	$ 11,600	2,900,000	1,160,000	1,740,000	1,546,854	$ 1,460,938
2018	400	12,500	900	$ 11,600	4,640,000	1,856,000	2,784,000	2,379,775	$ 2,205,189
2019	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,860,306	$ 2,600,458
2020	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,750,295	$ 2,453,263
2021	500	12,500	900	$ 11,600	5,800,000	2,320,000	3,480,000	2,644,514	$ 2,314,399
2022	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	3,090,820	$ 2,653,954
2023	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,971,942	$ 2,503,731
2024	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,857,636	$ 2,362,010
2025	500	15,000	900	$ 14,100	7,050,000	2,820,000	4,230,000	2,747,727	$ 2,228,311
2026	475	15,000	900	$ 14,100	6,697,500	2,679,000	4,018,500	2,509,943	$ 1,997,071
								$ 27,826,972	$ 24,200,933
Divide by PCYO shares outstanding								24,307,000	24,307,000
NPV of future Sky Ranch residiential lot sales								$ 1.14	$ 1.00

Source: Feltl and Company estimates

We believe the big box retail property can bring proceeds of $15mm pretax, the business park $4mm or more pretax, and the neighborhood commercial sites maybe another $4mm. In total, we see pretax proceeds of $23mm from developing the commercial properties, and $13.8mm after a 40% tax rate. We discount these returns 4% to 6% annually back over eight years on average to arrive at a NPV of $8.7mm-$10.0mm or $0.36-$0.42. We use $0.36 in our valuation.

PCYO will contract with a home builder/developer that will construct roads, curbs, gutters, and PCYO will construct water and wastewater systems. We expect the developer to be identified and contracted with sometime in the next year.

Water and Wastewater Tap Fees

Lots are assessed a $22,500 water tap fee and a $4,883 wastewater tap fee to develop new systems. PCYO gets 95% of the water tap fee (5% goes to the board as a royalty) and 100% of the wastewater tap fee. This can be quite lucrative as it cost about half of this amount to build out a system, meaning it generates 50% cash margins.

PCYO has a tiered water usage pricing structure for its customers as summarized following.

Tiered Water Usage Pricing Structure

	Price ($ per thousand gallons)		
Amount of consumption	2012	2011	2010
Base charge per SFE	$ 27.62	$ 27.62	$ 27.62
0 gallons to 10,000 gallons	2.81	2.81	2.81
10,001 gallons to 20,000 gallons	3.69	3.69	3.69
20,001 gallons to 40,000 gallons	6.56	6.56	6.56
40,001 gallons and above	8.93	8.93	8.93

Source: Pure Cycle 2012 10K

These numbers are what is charged to end-user customers. PCYO gets 95% of the above usage charges (the rest is a royalty to the Land Board. PCYO gets 90% of the wastewater service fees and the right to use reclaimed water. -The District charges wastewater customers $7.83 per SFE plus $6.68 per thousand gallons treated usage fee. Prior to July 1, 2011 wastewater customers were charged a flat monthly fee of $37.62 per SFE or $451 per year per SFE. PCYO also collects other fees and charges such as application fees, review fees, and permit fees.

PCYO will eventually realize residential use of some of its Arkansas River water rights. To use these PCYO would have to file a change of use application with the Colorado water court and this will require significant legal and engineering expenditure. If use is successfully changed PCYO could build a 130-mile pipeline, water treatment, and pumping facilities from its water to southeastern Denver at an estimated cost of $500mm. PCYO would work with the FLCC and other parties to along the Arkansas River to mitigate the impacts of a potential use change. These include the study of rotational crop system and other methods of irrigation.

Sky Ranch water and wastewater facilities will be first of many

PCYO's long-range opportunity is to build out up to 180,000 SFEs in its trade area. Sky Ranch will likely be just the first of many and the implications of building out roughly just half this opportunity are immense.

Providing water and wastewater services to just Sky Ranch should generate $7.5mm in revenue and an EBIT margin of 40% or $3.0mm. Some of these franchises – like Sky Ranch – are perpetual – while others have fixed terms, usually 50-100 years.

Long-term potential growth of Denver Metropolitan Area and Water and Wastewater Use

Annualized housing starts in the Denver MSA fell 75% from 2005-2008, then increased in 2009 and 2010, then fell 2% in 2011, then rose 41% in from September 30, 2011 to September 30, 2012.

Denver Regional Council of Governments ("DRCOG"), a voluntary association of over 50 county and municipal governments in the Denver metropolitan area, continues to estimate that the Denver metropolitan area population will increase by about 44% from today's 2.7 million people to 3.9 million people by the year 2030.

The following from PCYO's SEC filings summarizes well the long-term opportunity facing the company:

> A Statewide Water Supply Initiative report by the Colorado Water Conservation Board estimates that the South Platte River basin, which includes the Denver metropolitan region, will grow from a current population of 3.2 million to 4.9 million by the year 2030; while the State's population will increase from 4.7 million to 7.2 million.
>
> Approximately 70% of the State's projected population increase is anticipated to occur within the South Platte River basin. Significant increases in Colorado's population, particularly in the Denver metro region and other areas in the water short South Platte River basin, together with increasing agricultural, recreational, and environmental water demands will intensify competition for water supplies. The estimated population increases are expected to result in demands for water services in excess of the current capabilities of municipal service providers, especially during drought conditions. The Statewide Water Supply Initiative estimates that population growth in the Denver region and the South Platte River basin will result in additional water supply demands of over 400,000 acre feet by the year 2030, which must be met with new water sources. Colorado law requires property developers to demonstrate they have sufficient water supplies for their proposed projects before rezoning or annexation applications will be considered. These factors indicate that water and availability of water will continue to be critical to growth prospects for the region and the state, and that competition for available sources of water will continue to intensify. We focus the marketing of our water supplies and services to developers and homebuilders that are active along the Colorado Front Range as well as other area water providers in need of additional supplies.
>
> Colorado's future water supply needs will be met through conservation, reuse and the development of new supplies. The District's rules and regulations for water and wastewater service call for adherence to strict conservation measures, including low flow water fixtures, high efficiency appliances, and advanced irrigation control devices. Additionally, our systems are designed and constructed using a dual-pipe water distribution system to segregate the delivery of high quality potable drinking water to our local governmental entities and their end-use customers through one system and a second system to supply raw or reclaimed water for irrigation demands. About one-half of the water used by a typical Denver-area residential water customer is used for outdoor landscape and lawn irrigation. We believe that raw or reclaimed water supplies provide the lowest cost, most environmentally sustainable water for outdoor irrigation. We expect our systems to include an extensive water reclamation system, in which essentially all effluent water from wastewater treatment plants will be reused to meet non-potable water demands. Our dual-distribution systems demonstrate our commitment to environmentally responsible water management policies in our water short region.

MANAGEMENT AND BOARD OF DIRECTORS

Pure Cycle is mainly assets with few operations, and therefore has just a handful of employees.

Harrison H. Augur - Mr. Harrison H. Augur serves as Chairman of the Board of Pure Cycle Corporation. For the last 20 years Mr. Augur has been involved with investment management and venture capital investment groups. He has been a general partner of CA Partners since 1987 and of Patience Partners LLC since 1999. Mr. Augur received a Bachelor of Arts degree from Yale University, an LLB degree from Columbia University School of Law, and an LLM degree from New York University School of Law

Mark W. Harding - Mr. Mark W. Harding serves as President, Chief Executive Officer, Chief Financial Officer, and a Director of Pure Cycle Corporation. He joined the Company in April 1990 as Corporate Secretary and Chief Financial Officer, and was appointed CEO of the Company in April 2001 and a member of the board of directors in February 2004. From 1988 to 1990 Mr. Harding worked for Price Waterhouse's management consulting. Mr. Harding is also the CEO 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 statewide 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.

Arthur G. Epker, III - Mr. Arthur G. Epker, III, has served as an Independent Director of Pure Cycle Corporation and has held this position since August 2007. Prior to this Mr. Epker was a Vice CEO and partner of PAR Capital Management, Inc., an investment adviser from 1992 until 2007. Mr. Epker received his undergraduate degree in computer science and economics with highest distinction from the University of Michigan and received a Master of Business Administration from Harvard Business School.

Richard L. Guido - Mr. Richard L. Guido has served as an Independent Director of Pure Cycle Corporation. He served as a member of the Company's board from July 1996 through August 2003, and rejoined the board in 2004. Mr. Guido was Associate General Counsel of DeltaCom, Inc., a telecommunications company, from March 2006 to March 2007. From 1980 through 2004, Mr. Guido was an employee of Inco Limited, a Canadian mining company (now known as Vale Inco). While at Inco Mr. Guido served as Associate General Counsel of Inco Limited and served as CEO, Chief Legal Officer and Secretary of Inco United States, Inc., now known as Vale Inco Americas, Inc. Mr. Guido received a Bachelor of Science degree from the United States Air Force Academy, a Master of Arts degree from Georgetown University, and a Juris Doctor degree from the Catholic University of America.

Peter C. McC. Howell- Mr. Peter C. McC. Howell has served as an Independent Director of Pure Cycle Corporation since February 2005. From 1997 to present, Mr. Howell has served as an officer, director or advisor to various business enterprises in the area of acquisitions, marketing and financial reporting. From August 1994 to August 1997, Mr. Howell served as the Chairman and CEO of Signature Brands USA, Inc. (formerly known as Health-O-Meter), and from 1989 to 1994 Mr. Howell served as CEO and a director of Mr. Coffee, Inc. He is a member of the board of directors of Libbey, Inc., Global Lite Array Inc. (a subsidiary of Global-Tech Advanced Innovations Inc.) and Great Lakes Cheese, Inc., a privately held company. Mr. Howell received a Master of Arts degree in Economics from Cambridge University.

George M. Middlemas- Mr. George M. Middlemas has served as an Independent Director of Pure Cycle Corporation since April 1993. Mr. Middlemas has been a general partner with Apex Venture Partners, a diversified venture capital management group, since 1991. From 1985 to 1991, Mr. Middlemas was Senior Vice CEO of Inco Venture Capital Management, primarily involved in venture capital investments for Inco Securities Corporation. From 1979 to 1985, Mr. Middlemas was Vice CEO and a member of the Investment Committee of Citicorp Venture Capital Ltd., Mr. Middlemas is a director of Advanced Equities, Inc., Pennsylvania State University—Library Development Board and Athletic Committee and the Joffrey Ballet of Chicago. Mr. Middlemas received a Bachelor's degree in History and Political Science from Pennsylvania State University, a Master's degree in Political Science from the University of Pittsburgh and a Master of Business Administration from Harvard Business School.

INCOME STATEMENT

We note the following thoughts on PCYO's earnings model:

- We see revenue from two sources growing the fastest in 2013-2014:
    - Hydraulic fracturing use growing from $0 in 2012 to $500k in 2013 to over $2mm in 2014.
    - Farming growing from $0 to $1.3mm in 2012 to $1.5mm in 2014.
- We do not anticipate any significant addition of new SFEs until 2015 with the initial developments of Sky Ranch.
- We see modest gross margins expanding markedly as the rapid revenue growth better absorbs costs. Our model provides GM of $1.5mm in 2013 and $3.0mm in 2014 compared to $100k in 2012.
- We believe PCYO will use cash in 2013 and work towards minimal cash burn in 2014. There could be unforeseen investments involved in developing Sky Ranch.

PureCycle- PCYO

Earnings Model

Feltl and Company
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$ in thousands	1Q-12	2Q-12	3Q-12	4Q-12	1Q-13	2Q-13	3Q-13E	4Q-13E	1Q:14E	2Q-14E	3Q-14E	4Q-14E	2011	2012	2013E	2014E
Revenue:																
Metered water usage	$ 41.6	$ 24.4	$ 32.3	$ 84.5	$ 46.6	$ 104.3	$ 174.5	$ 264.6	$ 374.7	$ 504.8	$ 654.9	$ 725.0	$ 157.5	$ 182.8	$ 590.01	$ 2,259.29
Wastewater treatment fees	12.0	11.6	11.3	10.8	10.8	10.6	10.6	10.6	10.6	10.7	10.7	10.7	68.8	45.8	42.5	42.7
Farm operations	-	-	-	-	362.7	305.2	305.2	305.2	381.5	381.5	381.5	381.5	-	-	1,278.2	1,525.9
Special facility funding recognized	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	41.5	41.5	41.5	41.5
Water tap fees recognized	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	14.3	14.3	14.3	14.3
Other	-	-	-	-	4.4	0.5	-	-	-	-	-	-	-	-	4.9	-
Total revenues:	67.6	50.0	57.6	109.3	438.4	434.5	504.2	594.3	780.8	910.9	1,061.0	1,131.1	282.1	284.4	1,971.5	3,883.7
Expenses:																
Water service operations	$ (19.1)	$ (12.6)	$ (16.8)	$ (29.6)	$ (26.2)	$ (52.1)	$ (75.2)	$ (97.8)	$ (125.3)	$ (157.9)	$ (195.4)	$ (213.0)	$ (51.9)	$ (78.1)	(251.3)	(691.6)
Wastewater service operations	(5.9)	(4.6)	(5.4)	(3.3)	(3.3)	(4.6)	(4.6)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(19.2)	(19.3)	(17.2)	(18.8)
Farm operations	-	-	-	(2.0)	(19.0)	(26.6)	(27.0)	(27.0)	(27.0)	(27.0)	(27.0)	(27.0)	-	(2.0)	(99.6)	(108.0)
Depletion and depreciation	(22.1)	(22.1)	(22.1)	(22.3)	(22.1)	(22.2)	(22.2)	(22.2)	(22.2)	(22.2)	(22.2)	(22.2)	(88.6)	(88.6)	(88.7)	(88.7)
Other	-	-	-	-	(0.9)	(19.8)	-	-	-	-	-	-	-	-	(20.7)	-
Total cost of revenues:	(47.2)	(39.2)	(44.3)	(57.2)	(71.5)	(125.4)	(129.0)	(151.6)	(179.2)	(211.7)	(249.3)	(266.9)	(159.7)	(188.0)	(477.5)	(907.1)
Gross Margin:	20.4	10.7	13.2	52.0	366.9	309.2	375.2	442.7	601.6	699.1	811.7	864.2	122.4	96.4	1,494.0	2,976.6
General and administrative expenses	(599.5)	(583.7)	(621.2)	(569.6)	(838.1)	(653.2)	(668.9)	(685.0)	(701.6)	(718.5)	(735.8)	(753.6)	(2,212.0)	(2,374.1)	(2,845.2)	(2,909.4)
Impairment of land and water rights held for sa	-	-	-	(6,457.8)	-	-	-	-	-	-	-	-	-	(6,457.8)	-	-
Impairment of water assets	-	-	-	(5,544.0)	-	-	-	-	-	-	-	-	-	(5,544.0)	-	-
Depreciation	(53.5)	(55.0)	(55.6)	(56.6)	(55.5)	(54.4)	(53.9)	(53.4)	(52.9)	(52.4)	(51.9)	(51.4)	(212.2)	(220.7)	(217.1)	(208.4)
Operating loss:	(632.6)	(628.0)	(663.6)	(12,006.3)	(526.6)	(398.4)	(347.6)	(295.7)	(152.8)	(71.7)	24.0	59.3	(2,301.8)	(14,500.1)	(1,568.3)	(141.2)
Other income (expense):																
Oil and gas lease income, net	103.6	103.6	104.6	111.2	103.6	103.6	103.6	103.6	103.6	103.6	103.6	103.6	199.3	423.0	414.5	414.5
Farm income, net		-	-	71.1	-	-	-	-	-	-	-	-	-	71.1	-	-
Interest income	15.8	13.8	12.8	10.9	8.9	7.5	7.5	7.5	7.5	7.5	7.5	7.5	53.1	53.3	31.4	30.0
Other income (expense):	2.9	9.4	(0.8)	(7.9)	2.0	2.4	-	-	-	-	-	-	31.9	3.6	4.4	-
Gain on sale of assets		-	-	1.0	-	-	-	-	-	-	-	-	-	1.0	-	-
Interest expense	-	-	-	-	(26.9)	(73.1)	(75.0)	(80.0)	(85.0)	(90.0)	(95.0)	(100.0)	(151.7)	-	(255.0)	(370.0)
Interest imputed on the tap participation fee pa	(851.4)	(862.4)	(873.0)	(883.7)	(894.6)	(650.1)	(825.4)	(813.5)	(795.9)	(771.2)	(801.5)	(795.5)	(3,847.0)	(3,470.5)	(3,183.6)	(3,164.1)
Net loss:	$ (1,361.7)	$ (1,363.6)	$ (1,419.9)	$ (12,775.9)	$ (1,333.6)	$ (1,008.1)	$ (1,136.8)	$ (1,078.0)	$ (922.6)	$ (821.8)	$ (761.3)	$ (725.1)	$ (6,016.2)	$ (17,418.7)	$ (4,556.5)	$ (3,230.8)
Unrealized loss on marketable securities	2.4	-	-	-	(0.9)	-	-	-	-	-	-	-	-	-		
Comprehensive loss:	$ (1,359.3)	$ (1,363.6)	$ (1,419.9)	$ (12,775.9)	$ (1,334.5)	$ (1,008.1)	$ (1,136.8)	$ (1,078.0)	$ (922.6)	$ (821.8)	$ (761.3)	$ (725.1)	$ (6,016.2)	$ (17,418.7)	$ (4,556.5)	$ (3,230.8)
Net loss per common share-basic and diluted	$ (0.06)	$ (0.06)	$ (0.06)	$ (0.53)	$ (0.06)	$ (0.04)	$ (0.05)	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.26)	$ (0.72)	$ (0.19)	$ (0.13)
Weighted average common shares outstandin	24,037.6	24,037.6	24,037.6	24,037.6	24,037.6	24,037.6	24,037.6	24,037.7	24,037.7	24,037.7	24,037.7	24,037.8	23,168.5	24,037.6	24,037.6	24,037.7
Balanc Sheet Summary																
Total current assets:	$ 4,497.8	$ 3,924.1	$ 3,428.6	$ 7,661.8	$ 11,735.3	$ 11,560.5	$ 11,516.8	$ 11,531.6	$ 11,868.9	$ 12,835.5	$ 15,154.0	$ 19,631.2	$ 20,630.0	$ 19,512.1	$ 11,531.6	$ 19,631.2
Investments in water and water systems, net	106,406.7	106,333.0	106,319.1	88,510.4	88,536.3	88,485.0	88,430.6	88,376.7	88,323.4	88,270.5	88,218.2	88,166.3	426,148.5	407,569.3	88,376.7	88,166.3
Total assets:	$ 115,512.4	$ 114,863.5	$ 114,296.0	$ 111,582.1	$ 110,873.6	$110,322.2	$110,240.2	$110,194.0	$110,475.3	$111,389.4	$113,660.9	$118,085.2	$ 465,341.4	$ 456,253.9	$ 110,194.0	$ 118,085.2
Total current liabilities:	$ 655.4	$ 603.3	$ 699.3	$ 6,254.8	$ 5,788.7	$ 6,262.8	$ 6,466.0	$ 6,837.8	$ 7,480.0	$ 8,596.5	$ 10,965.7	$ 15,431.3	$ 1,863.3	$ 8,212.8	$ 6,837.8	$ 15,431.3
Tap participation fee payable to AP A&M	65,792.3	66,598.4	67,432.9	68,269.2	69,163.8	69,813.9	70,538.9	71,263.9	71,988.9	72,713.9	73,438.9	74,163.9	254,109.3	268,092.8	71,263.9	74,163.9
Total shareholders' equity	$ 45,997.2	$ 44,712.3	$ 43,332.3	$ 30,117.8	$ 28,793.9	$ 28,149.8	$ 27,141.8	$ 26,004.9	$ 24,926.9	$ 24,004.3	$ 23,182.5	$ 22,421.1	$ 182,338.2	$ 287,234.4	$ 26,004.9	$ 22,421.1

Analyst Certification

I, Brent R. Rystrom, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

Important Disclosures:

The analyst or a member of his/her household does not hold a long or short position, options, warrants, rights or futures of this security in their personal account(s).

As of the end of the month preceding the date of publication of this report, Feltl and Company did not beneficially own 1% or more of any class of common equity securities of the subject company.

There is not any actual material conflict of interest that either the analyst or Feltl and Company is aware of.

The analyst has not received any compensation for any investment banking business with this company in the past twelve months and does not expect to receive any in the next three months.

Feltl and Company has not been engaged for investment banking services with the subject company during the past twelve months and does not anticipate receiving compensation for such services in the next three months.

Feltl and Company has not served as a broker, either as agent or principal, buying back stock for the subject company's account as part of the company's authorized stock buy-back program in the last twelve months.

No director, officer or employee of Feltl and Company serves as a director, officer or advisory board member to the subject company.

Feltl and Company Rating System: Feltl and Company utilizes a four tier rating system for potential total returns over the next 12 months.

Strong Buy: The stock is expected to have total return potential of at least 20%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.
Buy: The stock is expected to have total return potential of at least 10%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.
Hold: The stock is expected to have total return potential between positive 10% and negative 10%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.
Sell: Expect a negative total return of at least 10%. Current positions may be used as a source of funds.

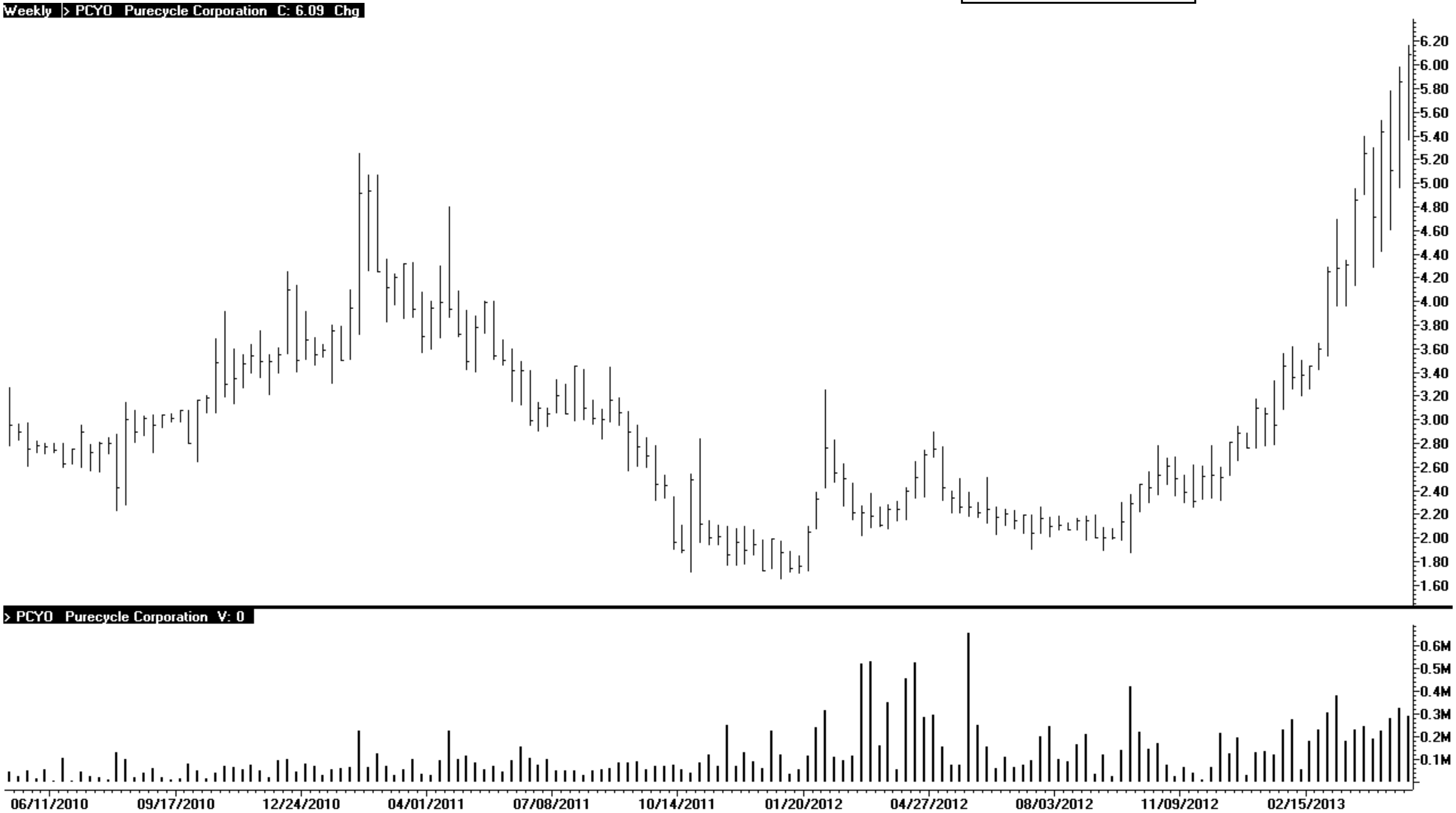
5/6/2013

Ratings Distribution for Feltl and Company

Rating	Number of Stocks	Percent of Total	------ Investment Banking ------ Number of Stocks	Percent of Rating category
SB/Buy	41	63%	3	7%
Hold	23	35%	0	0%
Sell	1	2%	0	0%
	65	100%	3	5%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.

05/06/13 STRONG BUY Target: $12.00



Date	Nature of Report	Rating	Price Target
05/06/13	Initiation @ $6.28	STRONGBUY	$12.00

Feltl and Company **does** make a market in the subject security at the date of publication of this report. As a market maker, Feltl and Company could act as principal or agent with respect to the purchase or sale of those securities.

Valuation and Price Target Methodology:

We considered a sum of the parts analysis technique in appraising the valuation of Pure Cycle. Our price target relies significantly on individual valuation estimates for each business segment of PCYO.

Risks to Achievement of Estimates and Price Target:

- The development of Pure Cycle's water utilities will be a comprehensive and long-term undertaking. Economic issues, regional issues, and other factors may significantly influence how this business develops.
- Water has become increasingly political in some states and changes in the public perception or regulatory environment could impair PCYO's outlook.
- The hydraulic fracturing activity is just getting started in PCYO's trade area, and we cannot be sure of the size or speed of the development of this demand.
- The development of PCYO's oil and gas assets is just getting started and faces significant hurdles to achieving success.
- The development of Sky Ranch will take many years and significant effort. Again, regional or local economic issues could alter the success or timing of this effort.
- Agriculture is a cyclical industry and the rents and income PCYO anticipates will likely see substantial variations over time.

Other Disclosures:

The information contained in this report is based on sources considered to be reliable, but not guaranteed, to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of this date, and are subject to change without notice. This report has been prepared solely for informative purposes and is not a solicitation or an offer to buy or sell any security. The securities described may not be qualified for purchase in all jurisdictions. Because of individual requirements, advice regarding securities mentioned in this report should not be construed as suitable for all accounts. This report does not take into account the investment objectives, financial situation and needs of any particular client of Feltl and Company. Some securities mentioned herein relate to small speculative companies that may not be suitable for some accounts. Feltl and Company suggests that prior to acting on any of the recommendations herein, the recipient should consider whether such a recommendation is appropriate given their investment objectives and current financial circumstances. Past performance does not guarantee future results. Additional information is available upon request.

Feltl and Company
SECURITIES BROKERAGE AND INVESTMENT BANKING

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