

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

Form 10-K

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

For the fiscal year ended August 31, 2024

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

Commission File Number 0-8814



PURE CYCLE CORPORATION

(Exact name of registrant as specified in its charter)

<p style="text-align: center;">Colorado (State or other jurisdiction of incorporation or organization)</p> <p style="text-align: center;">34501 E. Quincy Avenue, Bldg. 1, Suite D Watkins, CO (Address of principal executive offices)</p>	<p style="text-align: center;">84-0705083 (I.R.S. Employer Identification Number)</p> <p style="text-align: center;">80137 (Zip Code)</p>
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(303) 292 – 3456

(Registrant's telephone number, including area code)

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

<p style="text-align: center;">Common Stock 1/3 of \$0.01 par value (Title of each class)</p>	<p style="text-align: center;">PCYO (Trading Symbol(s))</p>	<p style="text-align: center;">The NASDAQ Stock Market (Name of each exchange on which registered)</p>
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Securities registered pursuant to Section 12(g) of the Act **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$170,688,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: November 11, 2024, 4,073,094

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference from the registrant's definitive proxy statement for the 2024 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days of the close of the fiscal year ended August 31, 2024. Alternatively, we may include such information in an amendment to this annual report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

Statements that are not historical facts contained in this Annual Report on Form 10-K, or incorporated by reference into this Annual Report on Form 10-K, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “anticipate,” “seek,” “project,” “future,” “likely,” “believe,” “may,” “should,” “could,” “will,” “estimate,” “expect,” “plan,” “intend” and similar expressions, as they relate to us, are intended to identify forward-looking statements. Forward-looking statements include statements relating to, among other things:

- future water supply needs in Colorado and how such needs will be met;
- anticipated revenue from water sales;
- anticipated increases in residential and commercial demand for water services and competition for these services;
- estimated population increases in the Denver metropolitan area and the South Platte River basin;
- increased demand for single-family rental homes;
- plans for, and the efficiency of, development of our Sky Ranch property;
- our competitive advantage;
- the impact of individual housing and economic cycles on the number of connections we can serve with our water;
- the number of new water connections needed to recover the costs of our water supplies;
- the number of units planned for development at Sky Ranch;
- the timing of the completion of construction and sale of finished lots at Sky Ranch;
- the number of lots expected to be delivered in a fiscal period;
- anticipated financial results, including anticipated increases in customers and revenue, from development of our Sky Ranch property;
- estimated tap fees to be generated from the development of the various phases of Sky Ranch;
- anticipated expansion and rental dates for our single-family rental homes;
- anticipated revenue and cash flows from our single-family rental homes;
- timing of and interpretation of royalties to the State Board of Land Commissioners;
- participation in regional water projects, including “WISE” (as defined herein) and the timing and availability of water from, and projected costs related to, WISE;
- increases in future water or wastewater tap fees;
- our ability to collect fees and charges from customers and other users;
- the estimated amount of reimbursable costs for Sky Ranch and the collectability of reimbursables;
- anticipated timing and amount of, and sources of funding for, (i) capital expenditures to construct infrastructure and increase production capacities, (ii) compliance with water, environmental and other regulations, and (iii) operations, including delivery and treatment of water and wastewater;
- capital required and costs to develop Sky Ranch;
- anticipated development of other phases concurrently with the second phase of Sky Ranch;
- plans to provide water for drilling and hydraulic fracturing of oil and gas wells;
- changes in oil and gas drilling activity on our property, on the Lowry Ranch, or in the surrounding areas;
- estimated costs of earthwork, erosion control, streets, drainage and landscaping at Sky Ranch;
- the anticipated revenue from customers in the Rangeview District, Sky Ranch Districts, and Elbert & Highway 86 District;
- plans for the use and development of our water assets and potential delays;
- estimated number of connections we can serve with our existing water rights;
- factors affecting demand for water;
- our ability to meet customer demands in a sustainable and environmentally friendly way;
- our ability to reduce the amount of up-front construction costs for water and wastewater systems;
- costs and plans for treatment of water and wastewater;
- anticipated number of deep-water wells required to continue expanding and developing our Rangeview Water Supply;
- expenditures for expenses and capital needs of the Rangeview District;
- regional cooperation among area water providers in the development of new water supplies and water storage, transmission and distribution systems as the most cost-effective way to expand and enhance service capacities;
- plans to drill water wells into aquifers located beneath the Lowry Ranch and the timing and estimated costs of such a build out;

- sufficiency of tap fees to fund infrastructure costs of the Rangeview District;
- our ability to assist Colorado “Front Range” water providers in meeting current and future water needs;
- plans to use raw water, effluent water or reclaimed water for agricultural and irrigation uses;
- factors that may impact labor and material costs;
- use of third parties to construct water and wastewater facilities and Sky Ranch lot improvements;
- plans to utilize fixed-price contracts;
- estimated supply capacity of our water assets;
- our belief that we have exceeded market expectations with the delivery of our lots at Sky Ranch;
- the impact of future cyberattacks on our business, financial condition, operating results and reputation;
- our ability to comply with permit requirements and environmental regulations and the cost of such compliance;
- the impact of water quality, solid waste disposal and environmental regulations on our financial condition and results of operations;
- our belief that several long-term land development and housing factors remain positive;
- our belief that Sky Ranch is better positioned to navigate the changing market than competitors;
- the impact of the downturn in the homebuilding market and increased interest rates on our business and financial condition;
- the recoverability of water and wastewater service costs from rates;
- forfeitures of option grants, vesting of non-vested options and the fair value of option awards;
- the sufficiency of our working capital and financing sources to fund our operations;
- estimated costs of public improvements to be funded by Pure Cycle and constructed on behalf of the Sky Ranch Community Authority Board;
- the anticipated development of the Sky Ranch Academy and the timing of enrollment of upper grades;
- service life of constructed facilities;
- accounting estimates and the impact of new accounting pronouncements; and
- the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting.

Forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties, and assumptions. There are no assurances that any of our expectations will be realized, and actual results could differ materially from those in such statements. Factors that could cause actual results to differ from those contemplated by such forward-looking statements include, without limitation:

- outbreaks of disease, such as the COVID-19 pandemic, and related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations, and the related impacts to the general economy;
- political and economic instability, whether resulting from natural disasters, wars, terrorism, pandemics or other sources;
- our ability to successfully expand our single-family home rental business and rent our single-family homes at rates sufficient to cover our costs;
- the timing of new home construction and other development in the areas where we may sell our water, which in turn may be impacted by credit availability and rising inflation and interest rates;
- population growth;
- changes in employment levels, job and personal income growth and household debt-to-income levels;
- changes in consumer confidence generally and confidence of potential home buyers in particular;
- declines in property values which impact tax revenue to the Sky Ranch Community Authority Board which would impact their ability to repay us;
- changes in the supply of available new or existing homes and other housing alternatives, such as apartments and other residential rental property;
- timing of oil and gas development in the areas where we sell our water;
- the market price of homes, rental rates, and water, oil and gas prices;
- changes in customer consumption patterns;
- changes in applicable statutory and regulatory requirements;
- changes in governmental policies and procedures, including with respect to land use and environmental and tax matters;
- changes in interest rates;
- changes in tenant relief laws, including laws regulating evictions, rent control laws, and other regulations that limit our ability to increase rental rates;
- changes in private and federal mortgage financing programs and lending practices;

- uncertainties in the estimation of water available under decrees;
- uncertainties in the estimation of number of connections we can service with our existing water supplies;
- uncertainties in the estimation of costs of delivery of water and treatment of wastewater;
- uncertainties in the estimation of the service life of our systems;
- uncertainties in the estimation of costs of construction projects;
- uncertainties in the amount of reimbursable costs we may ultimately collect;
- the strength and financial resources of our competitors;
- our ability to find and retain skilled personnel;
- climatic and weather conditions, including floods, droughts and freezing conditions;
- turnover of elected and appointed officials and delays caused by political concerns and government procedures;
- availability and cost of labor, material and equipment;
- engineering and geological problems;
- environmental risks and regulations;
- our ability to raise capital;
- changes in corporate tax rates;
- our ability to negotiate contracts with customers;
- uncertainties in water court rulings;
- security and cyberattacks, including unauthorized access to confidential information on our information technology systems; and
- the factors described under “Risk Factors” in this Annual Report on Form 10-K.

We undertake no obligation, and disclaim any obligation, to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise. All forward-looking statements are expressly qualified by this cautionary statement.

PART I

Item 1 – Business

Unless otherwise specified or the context otherwise requires, any reference to “Pure Cycle,” the “Company,” “we,” “us” or “our” is to Pure Cycle Corporation and its wholly-owned subsidiaries on a consolidated basis.

We are a diversified water and wastewater service provider, land developer, and home rental company. We provide wholesale water and wastewater services in the Denver, Colorado area, develop land we own into master planned communities, and develop single-family homes for rent. Each of our businesses, providing water and wastewater services, land development and single-family home rentals generate attractive recurring monthly income.

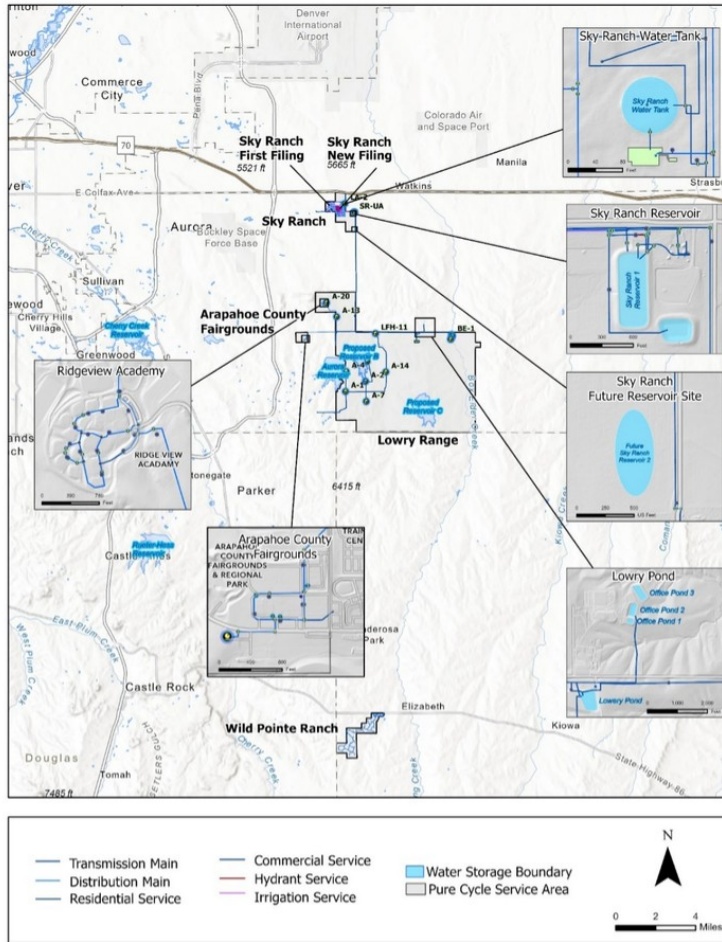
For more than 30 years, we have accumulated and continue to accumulate a portfolio of valuable water rights and land interests along the Front Range of Colorado. We have added an extensive network of wholesale water production, storage, treatment and distribution systems, and wastewater collection and treatment systems that we operate and maintain to serve domestic, commercial, and industrial customers in the eastern Denver metropolitan region (the illustration below notes the general area of our land and water assets). Our primary land asset, known as Sky Ranch, is in one of the most active development areas in the Denver metropolitan region along the rapidly developing I-70 corridor, and we are developing lots at Sky Ranch for residential, commercial, retail, and light industrial uses. Sky Ranch is zoned to include up to 3,200 single family and multifamily homes, parks, open spaces, trails, recreational centers, schools, and over two million square feet of retail, commercial and light industrial space, all of which will be serviced by our water and wastewater services segment. Additionally, we have retained lots in our Sky Ranch development for our single-family rental business where we build single-family homes for rent under annual lease agreements. With 14 homes currently owned and rented, we continue to expand this new line of business which may include more than 200 rental homes at Sky Ranch over the next several years.

Through our land development segment, we develop master planned communities creating value and opportunity for homeowners, and businesses who also become water and wastewater customers along the busy I-70 corridor of the Denver metropolitan area. Our land development segment was borne from our desire to capitalize on the increase in the value water provides to raw land in the Colorado Front Range.

Our land development activities provide a strategic complement to our water and wastewater resource and service business, and vice versa. One of the most significant components of any master planned community in Colorado is its ability to bring high quality domestic

water, irrigation water, and wastewater services to the community. Having control over the water resources in conjunction with developing the land enables us to efficiently build and maintain infrastructure for potable water and irrigation water distribution, wastewater and storm water collection, roads, parks, open spaces, and other investments. It also enables us to efficiently align construction and delivery of these investments with phased take-down commitments from our home builder customers, minimizing expensive excess capacity or downtime with these significant investments. By being the landowner, land developer, and water/wastewater provider, we believe we offer a more efficient development timeline, with more competitive lot pricing, which results in a more affordable and marketable for sale and for rent home product.

Our rental homes, water and land assets are designed, constructed, operated, and maintained by us. Our water, land development and home rental activities are each a distinct line of business which are operated as separate but are cohesive business segments. We refer to these segments as our water and wastewater resource development segment, our land development segment, and our single-family rental segment, all of which are described in greater detail below. To date, within our three business segments, we have sold or are actively developing 1,395 finished lots, we have constructed and operated and maintain water and wastewater systems with capacity to serve approximately 2,500 residential equivalent units, and we have constructed and are renting 14 homes.



Water and Wastewater Resource Development Segment

We own or control the water supply and infrastructure required to (i) withdraw, treat, store and deliver water (i.e., water rights, wells, diversion structures, pipelines, reservoirs and treatment facilities required to extract and use the water); (ii) collect, treat, store and reuse wastewater (i.e., we design, build, operate and maintain water treatment and wastewater reclamation facilities); and (iii) treat and deliver reclaimed water for irrigation and industrial use (i.e., we use and reuse our valuable water supplies through non-potable irrigation systems to irrigate parks and open spaces).

Our water supplies, which can be used in our exclusive service area (further described below) and other areas along the eastern I-70 corridor, enable us to add significant value to our land development segment by bringing water to land that does not have water for development, enhancing the value of that land, as well as our water resources, to a greater extent than either a traditional water utility or land developer can separately. Having a valuable portfolio of water in a water short region provides us with a competitive advantage over other land developers who may be required to buy expensive water, pay significant fees to another water provider in lieu of buying water, and/or wait for a city to annex property and extend costly water and wastewater infrastructure to the property before development can begin. Having our own water supply gives us more control over the land entitlement and development process and the ability to capitalize on the value of our water rights. In addition, we have significant in-house expertise in engineering, operations, and land development which allows us to take a hands-on approach to the water and land development process.

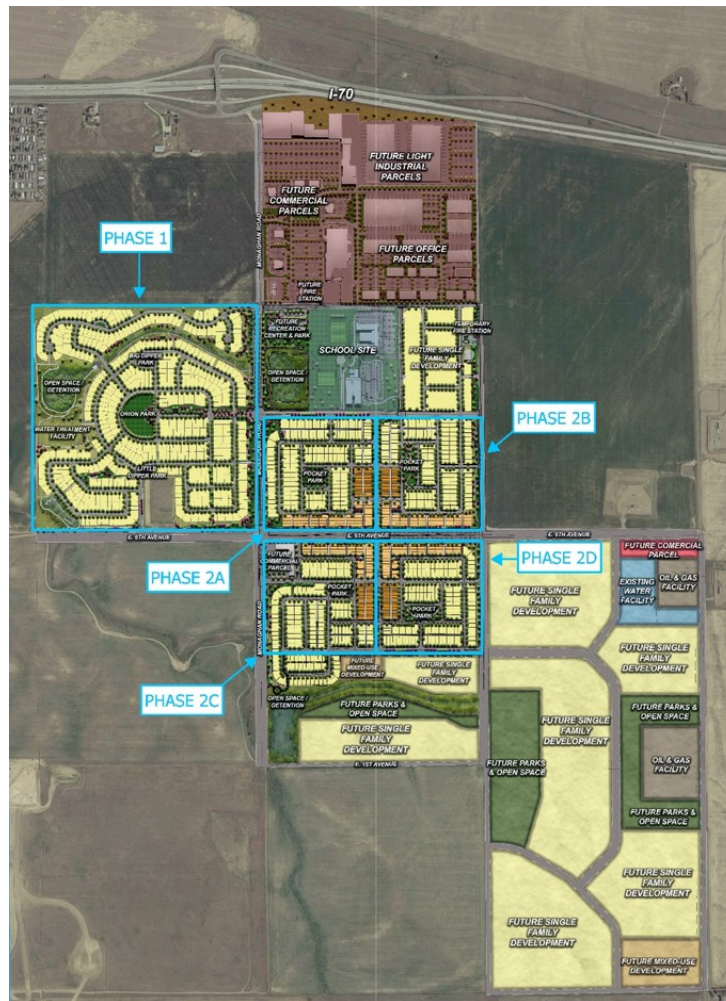
We mainly provide wholesale water and wastewater services to local governmental entities that in turn provide residential and commercial water and wastewater services to customers in their communities. Our largest customer is the Rangeview Metropolitan District (Rangeview District). We have the exclusive right to provide water and wastewater services to the Rangeview District's customers in its exclusive 24,000-acre Lowry Ranch Service Area in the southeastern Denver metropolitan area pursuant to various agreements that are described in greater detail below. As of August 31, 2024, through the Rangeview District, we provide service to more than 1,400 single-family equivalent (SFE) water connections and more than 952 SFE wastewater connections. These connections are located mainly in the southeastern metropolitan Denver area on the Lowry Ranch at our Sky Ranch development and other nearby areas where we have acquired service rights. With the water rights we own and control, we believe we can serve an estimated 60,000 SFEs. An SFE is a customer, whether residential, commercial, or industrial, that imparts a demand on our water or wastewater systems based on the demand of a family of four persons living in a single-family house on a standard sized lot. For some instances herein, as context dictates, the term "acre-feet" (which is approximately 326,000 gallons) is used to designate an annual decreed amount of water available during a typical year.

In addition to our domestic customers, we provide raw water for industrial oil and gas operations. Multiple operators lease more than 135,000 acres in and adjacent to our service area with more than 100 wells and miles of oil and gas collection lines. Sales of water to industrial customers in the oil and gas industry are unpredictable and fluctuate dramatically but provide a high margin attractive revenue for our water assets. Beginning in late 2021 and continuing through 2024, we saw a significant recovery in the oil and gas markets, and this resulted in additional water sales to oil and gas clients in our fiscal 2024 and 2023.

Land Development Segment

In 2010 we purchased approximately 930 acres of land along the I-70 corridor known as Sky Ranch. The illustration below provides our planned overall layout of Sky Ranch. We acquired Sky Ranch with the intention of selling lots to home builders to add value to our core water and wastewater operations by adding the ultimate purchasers of the homes as our water customers. Sky Ranch is being developed in phases over several years, which began in June 2017, when we entered into agreements with three national home builders to sell the initial residential lots at Sky Ranch (referred to as Phase 1) and has continued to expand as we sell lots to national homebuilders now up to 1,395 residential lots. We divided our land development into phases. We are now working on Phase 2 which is further divided into subphases that we refer to as Phases 2A, 2B, 2C and 2D to optimize the delivery of infrastructure and lots to our home builder customers on a real time basis without excess inventories of lots and homes.

Illustrative map of the Sky Ranch Master Planned Community



As of August 31, 2024, we have delivered to homebuilders 949 finished lots, retaining 31 lots for our single-family rental segment, are under construction on 228 lots (Phase 2C) scheduled for delivery in fiscal 2025, and have an additional 218 lots (Phase 2D) scheduled for delivery in fiscal 2026 at Sky Ranch. As of August 31, 2024, homebuilders have built and sold 719 homes at Sky Ranch, with approximately 53 additional homes under construction. All Phase 1 lots in Sky Ranch are complete and all public improvements (roads, parks, open spaces, storm drain facilities, etc.) have been accepted by the various governmental entities that will control and maintain that infrastructure.

As part of our land development activities, we formed a new Charter School, Sky Ranch Academy, for the purpose of partnering with the Bennett School District 29J to operate a new K-12 Charter School to be located at Sky Ranch. Sky Ranch Academy has partnered

with National Heritage Academy (NHA) to operate the charter, NHA brings more than 25 years of experience providing educational services at more than 100 schools in nine states, educating more than 60,000 students including five other schools in Colorado. Sky Ranch Academy opened in August 2023 serving grades K-7. In August of 2024 Sky Ranch Academy added grade 8. We anticipate that NHA will be opening a high school which will serve grades 9-12 for the school year 2026.

Single-Family Rentals

For several years the housing market and home prices in Colorado grew. As mortgage rates increased, and the average price of homes in Colorado rose, we believed rental homes would become increasingly attractive to provide affordable housing options to the growing population in Colorado. Additionally, we saw a shift from people having to rent to people choosing to rent. We believe this shift will continue to shape the housing market for the foreseeable future. To capitalize on the growing single-family rental market, we launched our single-family rental division. We initially contracted with a local home builder to construct 14 single-family detached homes at Sky Ranch that we retained for use in our rental division. We are currently under contract with a regional home builder to construct the next 12 single-family detached homes at Sky Ranch. These rental homes represent our investment in our third operating segment as we expect to add 94 homes in Phase 2 with the ability to add more than 200 homes as Sky Ranch builds out. Although the rise in home prices has dropped off in the last couple of years, we believe having ongoing recurring rental income, in a community which is experiencing double digit growth in home values and in which we are actively involved adds value to the community and provides tremendous upside for growing our balance sheet and diversifying our recurring revenue streams.

Our Water Assets

We use our valuable and growing water and land assets within our water and land development operations. Our water assets are summarized in the table below and further discussed in this section:

Water Source	Groundwater	Designated Groundwater	Surface Water	Total
Rangeview Water Supply		(acre-feet)		
Export (1)	10,000	—	1,650	11,650
Non-Export (2)	13,685	—	1,650	15,335
Fairgrounds	321	—	—	321
Sky Ranch	828	—	—	828
Lost Creek supply	220	670	—	890
WISE (3)	—	—	900	900
Total	25,054	670	4,200	29,924

- (1) Pending completion by the “Land Board” (defined below) of documentation related to the exercise of our right to substitute 1,650 acre-feet of our groundwater for a comparable amount of surface water.
- (2) We have the exclusive right to use this water to provide water services to customers on and off the Lowry Ranch, as described further below.
- (3) Amount of WISE water available for our use may vary by year and is described in greater detail below.

Rangeview Water Supply

Our Rangeview Water Supply consists of 26,924 acre-feet of tributary surface water, non-tributary groundwater, and not non-tributary groundwater, and approximately 26,000 acre-feet of adjudicated reservoir sites. Terminology typically used in the water industry that may help readers understand water rights are detailed below.

- Non-Tributary Groundwater – groundwater located outside the boundaries of any designated groundwater basins in existence on January 1, 1985, the withdrawal of which will not, within one hundred years of continuous withdrawal, deplete the flow of a natural stream at an annual rate greater than one-tenth of one percent of the annual rate of withdrawal.
- Not Non-Tributary Groundwater – statutorily defined as groundwater located within those portions of the Dawson, Denver, Arapahoe, and Laramie Fox-Hill aquifers outside of designated basins that does not meet the definition of “non-tributary.”
- Tributary Groundwater – all water located in an aquifer that is hydrologically connected to a natural stream such that depletion has an impact on the surface stream.
- Designated Groundwater – renewable and sustainable groundwater from certain areas of Colorado designated by the Colorado Ground Water Commission subject to management under the Colorado Ground Water Commission’s rules.
- Tributary Surface Water – water on the surface of the ground flowing in a stream or river system.

The Rangeview Water Supply is principally located in the southeast Denver metropolitan area at the “Lowry Ranch,” which is land owned by the State Board of Land Commissioners (Land Board) and is described below.

We acquired our Rangeview Water Supply through the following agreements:

- The 1996 Amended and Restated Lease Agreement between the Land Board and the Rangeview District, which was superseded by the 2014 Amended and Restated Lease Agreement, dated July 10, 2014 (Lease), among us, the Land Board, and the Rangeview District;
- The 1996 Service Agreement between us and the Rangeview District, which was superseded by the Amended and Restated Service Agreement, dated July 11, 2014, between us and the Rangeview District (Lowry Service Agreement), which allows us to provide water service to the Rangeview District’s customers located on the Lowry Ranch;
- The Agreement for Sale of non-tributary and not non-tributary groundwater between us and the Rangeview District (Export Agreement), pursuant to which we purchased a portion of the Rangeview Water Supply that we refer to as our “Export Water” because the Export Agreement allows us to export this water from the Lowry Ranch to supply water to nearby communities; and
- The 1997 Wastewater Service Agreement between us and Rangeview District (Lowry Wastewater Agreement), which allows us to provide wastewater service to the Rangeview District’s customers on the Lowry Ranch.
- The Option Agreement, dated January 20, 2024, among us, Rangeview District, and the Land Board (ECCV Option), which allows us to add the East Cherry Creek Valley (ECCV) system and 4,000 acre-feet or Arapahoe aquifer groundwater, to the lease described above, subject to the payments of additional rent, effective as of July 8, 2032, the expiration of the ECCV lease, described below under the heading “East Cherry Creek Valley System”.

The Lease, the Lowry Service Agreement, the Export Agreement, the Lowry Wastewater Agreement, and the ECCV Option, are collectively referred to as the “Rangeview Water Agreements.”

We provide wholesale water service and wastewater service to customers located both on and outside of the Lowry Ranch, including customers of the Rangeview District and other governmental entities, and industrial and commercial customers. Pursuant to service agreements with Rangeview (including the Lowry Service Agreement, the Lowry Wastewater Agreement and the Non-Lowry Service

Agreement described below), we design, construct, operate and maintain the Rangeview District's water and wastewater systems that are used to provide water and wastewater services to the Rangeview District's customers located within the Rangeview District's exclusive service area, and other approved areas. Subject to the terms and conditions of our agreements with the Rangeview District, we are the exclusive water and wastewater provider to the Rangeview District's customers. For the Rangeview District's customers located on the Lowry Ranch, we operate both the water and the wastewater systems during our contract period on behalf of the Rangeview District, which owns the facilities for both systems. At the expiration of our contract term in 2081, ownership of the water system facilities located on the Lowry Ranch used to deliver water to customers on the Lowry Ranch will revert to the Land Board, with the Rangeview District retaining ownership of any wastewater facilities located on the Lowry Ranch. The water system and related facilities used to deliver water to customers off the Lowry Ranch (including Export Water) will remain with us and the Rangeview District.

In addition to our valuable water rights, the Rangeview Water Agreements grant us the right to use approximately 26,000 acre-feet of reservoir capacity in two valuable surface reservoir sites to provide water service to customers both on and off the Lowry Ranch.

Fairgrounds Water

The fairgrounds water represents groundwater rights we acquired from Arapahoe County in conjunction with us entering into water service agreements with the County for the Arapahoe County Fairgrounds. We use this water with our overall Rangeview Water Supply for supplying water services throughout our service area.

Sky Ranch Water Supply

As part of the acquisition of the Sky Ranch land in 2010, we also acquired the 828 acre-feet of water located beneath the property. The water is being used as part of our overall water distribution system, which includes providing services to the Sky Ranch Master Planned Community.

Lost Creek Water Supply

The "Lost Creek Water" is comprised of water rights we acquired in 2019 and 2022 in the Lost Creek Designated Ground Water Basin. In August 2019, we purchased 300 acre-feet of designated groundwater and 220 acre-feet of groundwater and ditch water. In June 2022, we purchased 370 acre-feet of designated groundwater. All the Lost Creek Water has been changed for use as municipal/industrial/agricultural water, additionally we have filed an application with the Colorado Water Court to use the Lost Creek Water to augment our municipal/industrial water supplies at the Lowry Ranch. Our plans are to consolidate our Lost Creek Water with our Rangeview Water Supply to provide service to the Rangeview District's customers both on and off the Lowry Ranch.

The Lowry Ranch Property

The Lowry Ranch consists of nearly 26,000 acres, or 40 square miles, of primarily undeveloped land in unincorporated Arapahoe County. It is located 20 miles southeast of downtown Denver and is one of the largest contiguous parcels under single ownership next to a major metropolitan area in the United States. Pursuant to our agreements with the Land Board, we, together with the Rangeview District, have the exclusive rights to provide water and wastewater services to 24,000 acres of the Lowry Ranch.

The Rangeview District

The Rangeview District is a quasi-municipal corporation and political subdivision of the State of Colorado formed in 1986 for the purpose of providing water and wastewater services to the Lowry Ranch and other approved areas. The Rangeview District is governed by an elected board of directors. Eligible voters and persons eligible to serve as directors of the Rangeview District must own an interest in property within the boundaries of the Rangeview District. We own certain rights and real property interests which encompass the current boundaries of the Rangeview District. The current directors of the Rangeview District are Mark W. Harding (our President, Chief Executive Officer, and a director), Scott E. Lehman (our employee), Dirk Lashnits (our employee), Brent Brouillard (our employee), and one independent board member. Pursuant to Colorado law, directors may receive \$100 for each board meeting they attend, up to a maximum of \$1,600 per year. Messrs. Harding, Lehman, Lashnits, and Brouillard have all elected to forego these payments.

Land Board Royalties and Fees

Water Deliveries – Pursuant to the Rangeview Water Agreements, the Land Board is entitled to royalty payments based on a percentage of revenue earned from water sales that use the Rangeview Water Supply. The calculation of royalties depends on the location of the customer and whether the customer is a public or private entity. The Land Board does not receive a royalty from wastewater services. When we develop, operate, and deliver water from our Rangeview Water Supply, the Land Board receives royalties on the gross revenue at a rate of 12% from water delivered to all customers located on the Lowry Ranch and to all private customers located off the Lowry Ranch and 10% from public entity customers located off the Lowry Ranch. In the event that (i) metered production of water used on the Lowry Ranch in any calendar year exceeds 13,000 acre-feet or (ii) 10,000 acres of land on the Lowry Ranch have been rezoned to non-agricultural use, finally platted and water tap agreements have been entered into with respect to all improvements to be constructed on such acreage, the Land Board may elect, at its option, to receive (in lieu of its royalty of 12% from customers on the Lowry Ranch), 50% of the collective net profits (ours and the Rangeview District’s) derived from the sale or other disposition of water on the Lowry Ranch. To date, neither of these conditions has been met, and such conditions are not likely to be met any time soon. In addition to royalties on the sale of metered water deliveries, the Land Board will receive a royalty of two percent (2%) of the gross amount received from the sale of water taps to be served by the Rangeview Water Supply, except for the sale of any taps to Sky Ranch. Escalated royalties will be owed if we sell our Export Water outright rather than delivering water service. We do not currently anticipate selling our Export Water.

Annual Production Fee – We are also required to pre-pay the Land Board a minimum annual water royalty of approximately \$46,000 per year, which is credited against earned royalties each year.

Annual Rent – We pay the Land Board annual rent under the Lease of \$8,400, which amount is increased every five years based on the Consumer Price Index for Urban Consumers. The next increase will occur in 2026.

Option Fee – Pursuant to the terms of the ECCV Option, we paid the Land Board an initial fee of \$50,000, and we pay an annual fee of \$50,000 through 2032, which grants us the option to add the ECCV system and 4,000 acre-feet or Arapahoe aquifer groundwater, to our Lease upon the expiration of the ECCV Lease.

South Metropolitan Water Supply Authority (SMWSA) and Water Infrastructure Supply Efficiency Partnership (WISE)

SMWSA is a municipal water authority in Colorado organized to pursue the acquisition and development of water supplies on behalf of its members, which include the Rangeview District. SMWSA members include 14 Denver area water providers in Arapahoe and Douglas Counties. Pursuant to certain agreements between us and the Rangeview District, we agreed to provide funding to enable the Rangeview District to acquire rights to water projects undertaken by SMWSA, including rights to water supplied pursuant to the cooperative water project known as WISE. WISE provides for the purchase and construction of infrastructure (such as pipelines, water storage facilities, water treatment facilities, and other appurtenant facilities) to deliver water to and among the 10 members of the South Metro WISE Authority (SMWA), consisting of the Rangeview District and nine other SMWSA members, from the City and County of Denver acting through its Board of Water Commissioners (Denver Water) and the City of Aurora acting by and through its utility enterprise (Aurora Water). In exchange for funding the Rangeview District’s WISE obligations, we have the exclusive right to use and reuse the Rangeview District’s share of WISE water (approximately 9%) and infrastructure to provide water service to the Rangeview District’s customers and to receive the revenue from providing those services. Our current WISE subscription entitles us to approximately three million gallons per day of transmission pipeline capacity and increasing acre-feet of water per year as noted below.

Water Year (June 1 - May 31)	Acre-feet Subscription
2025	800
2026 and thereafter	900

The cost of the water to the members is based on the water rates charged by Aurora Water and can be adjusted each January 1. As of January 1, 2023, WISE water was \$6.48 per thousand gallons and such rate remained in effect through calendar 2023. Effective, January 1, 2024, WISE water increased to \$6.55 per thousand gallons, which will be in effect for all of calendar 2024. In addition, we pay certain system operational and construction costs, which is subject to the percentage of Rangeview District’s share (approximately 9%). If a WISE member, including the Rangeview District, does not need its WISE water each year or a member needs additional water, the members can trade and/or buy and sell water amongst themselves. For the year ended August 31, 2024, we, through the Rangeview

District, purchased a total of just over 134 acre-feet of WISE water for \$0.4 million. For the year ended August 31, 2023, we, through the Rangeview District, purchased a total of just under 199 acre-feet of WISE water for \$0.4 million.

During the years ended August 31, 2024 and 2023, we provided \$0.6 million each year of financing to the Rangeview District to fund the Rangeview District's obligation to purchase WISE water rights and pay for operational and construction charges. Ongoing funding requirements are dependent on the WISE water subscription amount and the Rangeview District's allocable share of the operational and overhead costs of SMWA and construction activities related to delivery of WISE water.

East Cherry Creek Valley System

Pursuant to a 1983 lease, ECCV Water and Sanitation District's leased the right to develop infrastructure to pump up to 4,000 acre feet of groundwater from the Arapahoe aquifer below the Lowry Range (ECCV Lease). ECCV's system is comprised of eight wells and more than ten miles of buried water pipeline located on the Lowry Ranch. In May 2012, we entered into an agreement to operate and maintain the ECCV facilities allowing us to utilize the system to provide water to commercial and industrial customers, including hydraulic fracturing for oil and gas wells. The agreement allows us to use the ECCV system through April 30, 2032, in exchange for a flat monthly fee and a fee per 1,000 gallons of water produced from ECCV's system, which is included in the water usage fees charged to customers. Pursuant to the ECCV Option, we will be able to add the use of the ECCV system and 4,000 acre-feet of Arapahoe aquifer groundwater to our Lease, upon the expiration of the ECCV lease (July 8, 2032) through the expiration of our Lease in 2081.

Sources of Water and Wastewater Service Revenue

Our water and wastewater resource development segment generates revenue from the following sources, described in greater detail below:

- Monthly metered water usage and wastewater treatment fees
- One-time water and wastewater tap (connection) fees
- Construction and special facility funding fees
- Consulting fees, and
- Industrial – oil and gas operations fees

Monthly Metered Water Usage and Wastewater Treatment Fees

Monthly metered water usage fees are assessed to customers based on actual deliveries each month. Water usage fees are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. The water usage fees for customers on the Lowry Ranch are noted in the tables below:

Current Lowry Ranch tiered potable water usage pricing structure

Base charge per SFE per month	\$	32.74
Price (\$ per thousand gallons used per month)		
0 gallons to 15,000 gallons	\$	4.63
15,000 gallons to 30,000 gallons	\$	8.10
30,000 gallons and above	\$	9.95

Current Lowry Ranch tiered non-potable water usage pricing structure

Base charge per SFE per month	\$	32.74
Price (\$ per thousand gallons used per month)		
0 gallons to 15,000 gallons	\$	3.94
15,000 gallons to 30,000 gallons	\$	6.89
30,000 gallons and above	\$	8.46

The figures in the table above reflect the amounts charged to the Rangeview District's end-use customers on the Lowry Ranch. Pursuant to the Lease, the amounts charged by the Rangeview District to its end-use customers on the Lowry Ranch cannot exceed the average of similar rates and charges of three surrounding municipal water and wastewater service providers. In exchange for providing water service to the Rangeview District's Lowry Ranch customers, we receive 98% of the usage charges received by the Rangeview District relating to water services after deducting the required royalty to the Land Board (described above at Rangeview Water Supply – *Land Board Royalties and Fees*).

The amounts charged by the Rangeview District to its end-use customers off the Lowry Ranch are determined pursuant to the Rangeview District's service agreements with such customers and such rates may vary. In exchange for providing water service to the Rangeview District's customers off the Lowry Ranch, we receive 98% of the usage charges received by the Rangeview District relating to water services after deducting any required royalty to the Land Board. The royalty to the Land Board is required for water service provided utilizing our Rangeview Water Supply, which includes most of our current customers off the Lowry Ranch except those at the Elbert & Highway 86 Commercial District (also known as "Wild Pointe" described below).

We sell bulk water at a rate of \$14.76 per thousand gallons to commercial and industrial customers via bulk meters or the Company's water fill stations.

We also collect other immaterial fees and charges from customers and other users to cover miscellaneous administrative and service expenses, such as application fees, review fees, reinspection fees, and permit fees.

In exchange for providing wastewater services, we receive 90% of the Rangeview District's monthly wastewater treatment fees, as well as the right to use or sell the reclaimed water.

Water and Wastewater Tap Fees

We generate significant revenue from fees charged to customers to connect to our water and wastewater systems. These fees are known as tap fees. The tap fee is a non-refundable fee that is payable typically at the time a building permit is granted for construction of a home or business and authorizes the property to connect to the water or wastewater system. Once granted, the right stays with the property. We have no obligation to physically connect the property to the lines; this is typically done by the homebuilder or commercial developer. Once connected to the water and/or wastewater systems, the property has live service, and the customer can receive metered water deliveries from our system and send wastewater into our system. Thus, the customer has full control of the connection right as it can obtain all the benefits from this right. Our systems are "wholesale facilities," namely those assets used to deliver water and wastewater to a service area or major regions or portions thereof. Wells, treatment plants, pump stations, tanks, reservoirs, transmission pipelines, and major sewage lift stations are typical examples of wholesale facilities.

The Rangeview District's 2024 water tap fees are \$33,204 per SFE, and its wastewater tap fees are \$8,000. The Rangeview District assesses its tap and usage fees annually and adjusts the rates as necessary.

In exchange for providing water service to the Rangeview District's customers using the Rangeview Water Supply (other than taps to Sky Ranch, which are exempt), we receive 98% of the Rangeview District's tap fees and the Land Board receives the remaining two percent as a royalty. In exchange for providing wastewater services, whether to customers on or off the Lowry Ranch, we receive 100% of the Rangeview District's wastewater tap fees.

Construction and Special Facility Funding Fees

Construction and Special Facility Funding fees are fees we receive, typically in advance, from developers for us to build infrastructure that is normally the responsibility of the developer because the facilities service only the developer's property. Those type of facilities may include retail facilities, which distribute water to and collect wastewater from an individual subdivision or a community, and special facilities, which are required to extend services to an individual development and are not otherwise classified as a typical wholesale facility or retail facilities. Temporary infrastructure required prior to construction of permanent water and wastewater systems or transmission pipelines to transfer water from one location to another are examples of special facilities. Once we certify that the special facilities have been constructed in accordance with our design criteria, the developer dedicates the special facilities to the Rangeview District, and we operate and maintain the facilities on behalf of Rangeview.

Consulting Fees

Consulting fees are received, typically monthly, from municipalities and area water providers for whom we provide contract operation services.

Industrial – Oil and Gas Operations Fees

We provide water for oil and gas operators that are performing hydraulic fracturing, mainly in the Niobrara Formation on and around our service area and our Sky Ranch property. These fees are paid based on the metered gallons of water delivered. Oil and gas drilling in our area is affected by the price of oil and state, local and federal government regulations. The number of wells drilled vary from year to year. Each well utilizes between 10 and 20 million gallons of water during the hydraulic fracturing process, which equates to selling water to between approximately 100 and 200 homes for an entire year. With a large percentage of the acreage surrounding the Lowry Ranch in Arapahoe, Adams, Elbert, and portions of Douglas Counties already leased by oil companies, we anticipate continuing to provide water for drilling and hydraulic fracturing in the future.

Service to Customers Not on the Lowry Ranch

In addition to customers on the Lowry Ranch, we have an agreement with the Rangeview District to be its exclusive water and wastewater service provider throughout its service area. This includes the design, construction, operation and maintenance of water and wastewater systems to serve the Rangeview District's customers located outside the Lowry Ranch Service Area (for example Wild Pointe and Sky Ranch) (Non-Lowry Service Agreement). In exchange for providing water and wastewater services to the Rangeview District's customers that are not on the Lowry Ranch, we receive 100% of water and wastewater tap fees, 98% of the water usage fees, and 90% of the monthly wastewater service and usage fees received by the Rangeview District from these customers, after deduction of royalties due to the Land Board, if applicable (i.e., if we use a portion of the Rangeview Water Supply, such as the Export Water, to provide service to such customers). We are currently not using the Rangeview Water Supply at Sky Ranch, but we may do so in the future, in which case water usage fees to be collected for such service would become subject to the Land Board royalty.

Sky Ranch Water and Wastewater Service – As described in more detail below, we are developing approximately 930 acres of land as a Master Planned Community known as Sky Ranch. Pursuant to the Non-Lowry Service Agreement, we are the exclusive provider of water and wastewater services to all current and future residents, businesses, and other water users at the Sky Ranch development.

Wild Pointe – Elbert & Highway 86 Commercial Metropolitan District – In 2017, we entered into an agreement with the Rangeview District, which had entered into an agreement with Elbert & Highway 86 Commercial Metropolitan District (Elbert 86 District), to operate and maintain a water system for residential and commercial customers at the Wild Pointe development in Elbert County. The water system includes two deep water wells, a pump station, treatment facility, storage facility, over eight miles of transmission lines, and over 450 acre-feet of water rights serving Wild Pointe. We provided \$1.6 million in funding to acquire the exclusive rights to operate and maintain all the water facilities in exchange for payment of the remaining residential and commercial tap fees and annual water use fees. Service to Wild Pointe is governed by the Non-Lowry Service Agreement.

Our Land Development Assets – Sky Ranch

In 2010, we purchased approximately 930 acres of undeveloped land in unincorporated Arapahoe County, which we are actively developing as the master planned community known as Sky Ranch. With the property acquisition, we also acquired nearly 830 acre-feet of water beneath Sky Ranch and approximately 640 acres of oil and gas mineral rights. Sky Ranch is located 16 miles east of downtown Denver, four miles north of the Lowry Ranch, and four miles south of Denver International Airport.

Sky Ranch is zoned for residential, commercial, and retail uses, including up to 3,200 homes and more than two million square feet of commercial, retail, and light industrial development. See illustration above for the current layout of Sky Ranch. The development of Sky Ranch will occur in multiple filings and phases which will take several years to complete. As of August 31, 2024, we have delivered to homebuilders 949 finished lots, retaining 31 lots for our single-family rental segment, are under construction on 228 lots scheduled for delivery in fiscal 2025, and have under contract an additional 218 lots scheduled for delivery in fiscal 2026 at Sky Ranch. As of August 31, 2024, homebuilders have built and sold 719 homes at Sky Ranch, with approximately 53 homes under construction. All Phase 1 lots in Sky Ranch are complete and all public improvements (roads, parks, open spaces, storm drain facilities, etc.) have been accepted by the various governmental entities that will control and maintain the infrastructure.

The total sales price for the 792 lots sold and to be sold to the homebuilders in Phase 2 is approximately \$69.9 million, which is subject to price escalations depending on development timing which are not included in that figure. The total sales price for the 219 lots in Phase 2A is \$18.4 million, which were completed in fiscal year 2022. Total sales price for the 194 lots in Phase 2B is \$17.3 million. See below for a description of the conditions that may limit our ability to receive reimbursables and a definition of the Sky Ranch CAB.

As the land developer, we are obligated to provide finished lots (i.e. lots ready for building permits to construct homes) to each of the home builders as part of our agreements with them. We build, or contract to build, the roads, curbs, wet and dry utilities, storm drains, parks, open spaces, and other related improvements as part of a master planned community as part of our agreement with the Sky Ranch CAB. Each builder is required to purchase water and wastewater taps for each lot from the Rangeview District at the time a building permit is issued. The cost of the water and wastewater tap for a lot depends on the size of the lot, the size of the house, and the amount of irrigated landscaping. Pursuant to the Non-Lowry Service Agreement, we receive all the water and wastewater tap fees from tap sales at Sky Ranch and 98% of the ongoing monthly water and 90% of ongoing monthly wastewater service revenue.

Public improvements, such as roads, parks, and water and sanitary sewer mains, storm sewer, and drainage improvements, that are shared by all homeowners in the development and not specific to any private finished lot are ultimately owned by the governmental metropolitan district or other municipality that is responsible for the maintenance of the improvements. Upon completion and acceptance of certain public improvements by the “Sky Ranch Districts” or the Sky Ranch CAB (both of which are defined below), we are entitled to receive reimbursement for the verified public improvement costs. Pursuant to certain agreements with the Sky Ranch Districts and the Sky Ranch CAB, on their behalf we construct public infrastructure such as roads, curbs, storm water, drainage, sidewalks, parks, open space, trails etc., which costs are reimbursed to us by the Sky Ranch CAB, through funds generated by the Sky Ranch Districts through taxes, fees, or the issuance of municipal bonds. See Note 2 and Note 5 to the accompanying consolidated financial statements regarding treatment and recognition of these public improvement costs.

Pursuant to our service agreements, we are required to construct all required wholesale water and wastewater improvements (i.e., a wastewater reclamation facility, water supply, storage, treatment, and other wholesale facilities) for the provision of water and wastewater service to the property. As of August 31, 2024, we have completed the required wholesale facilities and other infrastructure to provide water and wastewater for over 2,000 homes at Sky Ranch. The most significant wholesale facility built was the wastewater reclamation facility, which cost \$10.2 million and has a designed capacity to provide wastewater for more than 2,000 single-family homes before requiring expansion. This allows the treatment facility to process wastewater for several development phases at Sky Ranch before additional investment is needed to increase its capacity.

We expect to have other phases developing concurrently with the second phase that could include commercial, retail, and light industrial sites. We expect full development of the Sky Ranch Master Planned Community to take another eight to ten years depending on market conditions.

Pursuant to the Sky Ranch Water and Wastewater Service Agreement, dated June 19, 2017, between PCY Holdings, LLC (a wholly-owned subsidiary of ours that holds title to the Sky Ranch land), and the Rangeview District, PCY Holdings, LLC, agreed to construct certain facilities necessary to provide water and wastewater service to Sky Ranch. The Rangeview District, through us as its exclusive service provider, agreed to provide water and wastewater services to the Sky Ranch property. We have installed over 23 miles of water delivery and wastewater collection infrastructure at a cost of \$7.9 million, which is reimbursable by the Sky Ranch CAB as outlined in Note 5 to the accompanying consolidated financial statements.

We have also leased the oil and gas minerals underlying the property to a major independent exploration and production company.

Sky Ranch Metropolitan Districts

The Sky Ranch Metropolitan District Nos. 1, 3, 4, 5, 6, 7 and 8 are quasi-municipal corporations and political subdivisions of Colorado formed for the purpose of providing services to the Sky Ranch property (Sky Ranch Districts). The Sky Ranch Districts are governed by an elected board of directors. Eligible voters and persons eligible to serve as directors of the Sky Ranch Districts must own an interest in property within the boundaries of the district. We own certain rights and real property interests which encompass the current boundaries of the districts and certain of our employees serve on the boards of directors of the Sky Ranch Districts. The current directors of the districts are Mark W. Harding (our President, Chief Executive Officer, and a director), Marc Spezialy (our Vice President, Chief Financial Officer), Scott E. Lehman (our employee), Dirk Lashnits (our employee), and two independent board members. Pursuant to

Colorado law, directors may receive \$100 for each board meeting they attend, up to a maximum of \$1,600 per year. Messrs. Harding, Spezialy, Lehman, and Lashnits have all elected to forego these payments.

Sky Ranch Community Authority Board

Districts No. 1 and 5 of the Sky Ranch Districts, formed the Sky Ranch Community Authority Board (Sky Ranch CAB) to, among other things, design, construct, finance, operate and maintain certain public improvements for the benefit of the property within the boundaries and/or service area of the Sky Ranch Districts. In order for the public improvements to be constructed and/or acquired, it is necessary for each Sky Ranch District and/or the Sky Ranch CAB to be able to fund the improvements and pay its ongoing operations and maintenance expenses related to the provision of services that benefit the property. We entered into agreements, first with Sky Ranch Metropolitan District No. 1 in 2014 and later with the Sky Ranch CAB, that require us to fund expenses related to the construction of an agreed upon list of public improvements for the Sky Ranch Master Planned Community.

We and the Sky Ranch CAB entered into a Facilities Funding and Acquisition Agreement (FFAA) effective November 2017, obligating us to advance funding to the Sky Ranch CAB for specified public improvements constructed from 2018 to 2024. All amounts owed under the FFAA bear interest at a rate of 6% per annum. Any advances not paid or reimbursed by the Sky Ranch CAB by December 31, 2058, for Phase 1 and December 31, 2060, for Phase 2A, shall be deemed forever discharged and satisfied in full. Advances and verified costs expended by us for expenses related to the construction of the agreed upon public improvements are reimbursable to us by the Sky Ranch CAB. No repayment is required of the Sky Ranch CAB for advances made or expenses incurred related to the construction of public improvements unless and until the Sky Ranch CAB and/or Sky Ranch Districts generate sufficient funds from property taxes, fees, or the issuance of bonds in an amount sufficient to reimburse us for all or a portion of advances or other public improvement expenses incurred. Unpaid advances accrue interest at the rate of 6% annually. The Sky Ranch CAB agrees to exercise reasonable efforts to issue bonds to reimburse us subject to certain limitations. In addition, the Sky Ranch CAB agrees to utilize any available moneys not otherwise pledged to payment of debt or used for operation and maintenance expenses to reimburse us. Since 2017, we have advanced the Sky Ranch CAB a total of \$67.5 million for funding the construction of the public improvements. The Sky Ranch CAB has remitted the following amounts to us for repayment of public improvements and the related interest:

- In November 2019, the Sky Ranch CAB issued bonds and repaid \$10.5 million;
- In fiscal 2021, the Sky Ranch CAB repaid \$0.4 million from unencumbered funds resulting from a budget surplus;
- In fiscal 2022, the Sky Ranch CAB repaid \$0.1 million from unencumbered funds resulting from a budget surplus;
- In August 2022, the Sky Ranch CAB issued bonds and repaid \$23.6 million;
- In fiscal 2023, the Sky Ranch CAB repaid \$0.9 million from unencumbered funds resulting from a budget surplus; and
- In fiscal 2024, the Sky Ranch CAB repaid \$0.8 million from unencumbered funds resulting from a budget surplus.

Due to continued growth and the continued belief the Sky Ranch CAB can repay amounts we spend on public improvements, Phase 2 reimbursable public improvements, along with the project management revenue, and interest income are being recorded as a note receivable from the Sky Ranch CAB as incurred. Note 5 to the accompanying consolidated financial statements summarizes the changes to the note receivable. The Sky Ranch CAB has an obligation to repay us but the ability of the Sky Ranch CAB to repay us before the contractual termination dates is dependent upon the establishment of a tax base or other fee generating activities sufficient to recover reimbursable costs incurred. Costs incurred will be recognized as land under development costs or notes receivable – related party, depending on whether collectability is deemed to be considered probable. In addition to the note receivable balance, the Sky Ranch CAB refunded \$0.5 million for the reimbursement of construction costs from the Southeast Metropolitan Storm Water Authority (SEMSWA). These costs were distributed to the Sky Ranch CAB upon the acceptance of the stormwater infrastructure by SEMSWA during our fiscal 2022.

The current directors of the Sky Ranch CAB are Mark W. Harding (our President, Chief Executive Officer, and a director), Marc Spezialy (our Vice President, Chief Financial Officer), Scott E. Lehman (our employee), Dirk Lashnits (our employee), and one independent board member. Pursuant to Colorado law, directors may receive \$100 for each board meeting they attend, up to a maximum of \$1,600 per year. Messrs. Harding, Spezialy, Lehman, and Lashnits have all elected to forego these payments.

Other Assets

Oil and Gas Leases

In 2011, we entered into an Oil and Gas Lease (Sky Ranch O&G Lease) and Surface Use and Damage Agreement and received an up-front payment and a 20% of gross proceeds royalty (less certain taxes) from the sale of any oil and gas produced from the mineral estate we own at Sky Ranch. The Sky Ranch O&G Lease is now held by production, and we have been receiving royalties from the oil and gas production from six wells drilled within our mineral interest. During the years ended August 31, 2024 and 2023, we received \$0.8 million and \$0.3 million in royalties attributable to these wells.

In July 2019, we entered into an Agreement on Locations of Oil and Gas Operations covering approximately 16 acres at Sky Ranch with the operator of the Sky Ranch O&G Lease (OGO). The Company received an up-front payment of \$0.6 million in fiscal 2019 for the OGO, which was recognized as income on a straight-line basis over three years (the term of the OGO). In July 2022, the operator had not spud at least one well on the oil and gas operations area. To extend its rights under the OGO for one additional year, the oil and gas operator paid us \$75,000, which is being recognized into income over the term of the extension. In July 2023, the operator paid us an additional \$75,000 to extend its rights under the OGO for one additional year, which is being recognized into income over the term of the extension. This was the final extension allowed under the OGO for a total of five years. During fiscal year ending August 31, 2024, seven new wells were drilled on the pad site and placed into operations.

Arkansas River Land and Minerals

We own approximately 700 acres of land in the Arkansas River Valley in southeastern Colorado. We currently lease all these acres for dry land grazing. We intend to sell the land in due course and have classified it as a long-term investment. We also own approximately 13,900 acres of mineral interests in the Arkansas River Valley, which has no carrying value on our books due to an impairment charge of \$1.4 million we recorded in fiscal 2020. We currently have no plans to sell our mineral interests.

Significant Customers

We primarily provide water and wastewater services on the Rangeview District's behalf to the Rangeview District's customers. The Rangeview District accounts for the majority of our water and wastewater service revenue. Refer to Note 10 in the accompanying consolidated financial statements for additional information on our significant customers.

Projected Operations

This section should be read in conjunction with *Item 1A – Risk Factors*.

Along the Colorado Front Range, there are over 70 water providers with varying needs for replacement and/or new water supplies. We believe that we are well positioned to assist certain of these providers in meeting their current and future water needs.

We design, construct, operate and maintain our water and wastewater facilities using advanced water treatment and wastewater treatment technologies, which allow us to use our water supplies in an efficient and environmentally sustainable manner. We develop our water and wastewater systems in stages to efficiently meet customer demands in our service areas by managing capital investments required for construction of facilities. We use third-party contractors to construct our facilities as needed. We employ licensed water and wastewater operators to run our water and wastewater systems. As our systems expand, we expect to hire additional personnel to operate our systems, which include water production, treatment, testing, storage, distribution, metering, billing, and operations management.

Our water and wastewater systems conjunctively use surface and groundwater supplies and storage of raw water and highly treated reclaimed water supplies to provide a balanced sustainable water supply for our customers. Integrating conservation practices and incentives, together with effective water reuse, demonstrates our commitment to providing environmentally responsible and sustainable water and wastewater services. Water supplies and water storage reservoirs are competitively sought throughout the west and along the Front Range of Colorado. We believe that regional cooperation among area water providers in developing new water supplies, water storage, and transmission and distribution systems provides the most cost-effective way of expanding and enhancing service capacities for area water providers. We continue to seek opportunities for developing water supplies and water storage opportunities with other area water providers.

As we continue expanding and developing our Rangeview Water Supply, we anticipate needing a significant number of high-capacity deep water wells. These wells would be drilled into one or more of the three principal aquifers located beneath the Lowry Ranch, and, as with our current wells, the water would be delivered to central water treatment facilities for treatment prior to delivery to customers. Continued development of our Lowry Ranch surface water supplies will require facilities to divert surface water to storage reservoirs to be located on the Lowry Ranch, additional treatment facilities to treat the water prior to introduction into our distribution system(s), and additional surface water diversion facilities designed with capacities to divert the surface water when available (particularly during seasonal events such as spring run-off and summer storms) for storage in reservoirs to be constructed on the Lowry Ranch. We estimate the full build-out of water and wastewater facilities (including diversion structures, transmission pipelines, reservoirs, and water treatment facilities) to develop and deliver our portfolio of water would cost in excess of \$900 million, and would accommodate water service to customers located on and outside the Lowry Ranch. We believe this build out would occur in phases over many decades, and we believe tap fees would be sufficient to fund the required infrastructure costs.

Our Denver-based supplies are a valuable, locally available resource located near the point of use. This enables us to incrementally develop infrastructure to produce, treat and deliver water to customers based on their growing demands.

During fiscal 2024 and 2023, combined, we invested over \$5.1 million in infrastructure, including wells, pipelines, appurtenances for the WISE, and Sky Ranch water and wastewater systems to provide water and wastewater services to our growing customers at Sky Ranch and elsewhere. We expect to continue to invest in water rights and facilities as our customer demands grow.

We continue developing our Sky Ranch property, including finishing lots for home builders, building additional water and wastewater infrastructure for residential and commercial development at the property, and having homes constructed for our single-family home rental business. During the years ended August 31, 2024 and 2023, for Phase 2 we invested \$18.8 million and \$9.8 million in our Sky Ranch land which included \$7.1 million and \$1.9 million of expendable costs related to the delivery of finished lots and \$11.7 million and \$7.9 million of costs for public improvements which we expect to be repaid by the Sky Ranch CAB. Additionally, we spent approximately \$0.4 million and \$3.8 million on construction costs related to our single-family rental business. Phase 1 was our first project as a land developer and was done ahead of our original schedule and on budget. Phase 2A, which broke ground in February 2021, incurred a total of \$21.2 million of construction costs to deliver the lots (of which we estimate \$18.5 million is for public improvements to be repaid by the Sky Ranch CAB). Phase 2B, which broke ground in March 2023, incurred a total of \$16.9 million of construction costs to deliver the lots (of which we estimate \$14.0 million is for public improvements to be repaid by the Sky Ranch CAB). During the years ended August 31, 2024 and 2023, we sold 69 and 90 water and wastewater taps at Sky Ranch to homebuilders, which generated \$2.6 million and \$2.7 million of tap fees. The Company sold an additional 4 and 14 water taps during the years ended August 31, 2024 and 2023, which generated \$0.8 million and \$0.4 million. As of August 31, 2024, we have sold 777 water and wastewater taps at Sky Ranch in Phases 1, 2A, and 2B. Based on current prices and engineering estimates, we believe Phase 2 of Sky Ranch will produce additional tap fee revenue of \$19.8 million in water and wastewater tap fee revenue and cash over the next three years.

Our first three rental homes at Sky Ranch were completed and rented in November 2021. During fiscal 2023, an additional 11 homes were completed and rented as they became available. We plan to build 84 additional rental homes over the next several years in Phases 2B-D. We anticipate building these homes concurrent with construction of homes in Phase 2. We design and price rental homes closer to the cost of construction. The 14 homes constructed to date have an average construction cost of approximately \$350,000 and have a market value of more than \$500,000 each.

We plan to develop additional water assets within the Denver area and are exploring opportunities to utilize our water assets in areas adjacent to our existing water supplies. Additionally, we continue to source additional land acquisitions that could be paired with our water to provide additional growth to each of our business segments.

Growth in Colorado

Colorado continues to grow. According to the 2021 census report, Colorado added over 744,000 residents from 2010 to 2021, a growth of 14.8%, bringing the Colorado population to nearly 5.8 million, which is projected to grow to more than 8.7 million by 2050. 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 (and our Sky Ranch community), could require an additional 400,000 acre-feet of water by the year 2030 due to continued growth. What makes this difficult for land developers and builders is that Colorado law requires developers to demonstrate they have sufficient water supplies for their proposed projects before zoning applications will be considered.

This means cities, municipalities, developers and builders must demonstrate water availability prior to development. This indicates that 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.

In recent years we have witnessed several changing consumer patterns, including residents leaving downtown urban areas to buy homes in the suburbs and work remotely. This put our Sky Ranch community in the enviable position of being able to respond to this demand due to its great location, affordable home prices, available inventory, and easy access to work centers and major transportation corridors. We believe our ability to pair our water to our land and our in-house expertise for operating our systems allowed us to provide home builders with an affordable and sustainable master planned community that allowed our builders to quickly satisfy the increased demand from home buyers. We believe our affordable community will continue to grow through cyclical housing markets such as we experienced in fiscal 2024 and continue to experience in fiscal 2025.

Growth in the Denver area has trended east with significant activity occurring along the I-70 corridor, an area which enjoys excellent transportation infrastructure with I-70, rail access, and Denver International Airport (DIA). The region has significant employment centers, including DIA, the University of Colorado Anschutz Medical Campus, an Amazon fulfillment center, the Rocky Mountain Regional VA Medical Center, Buckley Space Force Base, and more, creating demand for residential, retail, and commercial development opportunities.

This tremendous growth, coupled with relatively low new and resale home inventories, along with a shift in lifestyle choices from home ownership to renting, has pushed the single-family rental market into double-digit growth. Although this market has existed for decades, the focus has shifted from individuals owning the units to commercial institutions buying large blocks of houses for rentals. The single-family rental space is now among the fastest growing segments in the U.S. housing market. Demand for rental units has been steadily increasing due to current demographic trends related to Gen-Y and baby boomers; however, migration patterns related to remote work have accelerated that demand. According to the 2021 census, single-family rentals grew by 31% from 2007 to 2016, compared to 14% for multifamily rentals over the same period. As the demand for more single-family rental properties grows, an increasing number of larger investors are expanding their investment strategy to include the product. The single-family rental market is estimated at \$3.4 trillion, compared to \$3.5 trillion for the multifamily market, and institutional investors make up less than 2% of the market compared to 55% for the multifamily market. As more young families, families with children, and retirees look to rent single family homes with yards and recreational amenities on a long-term basis, more investors are looking to the single-family rental markets to expand their portfolios and grow their capital.

In addition to actively seeking to expand our land holdings for development purposes, we also market our water supplies and services to developers and home builders that are active along the Colorado Front Range as well as other area water providers in need of additional supplies.

Colorado's future water needs will be met through conservation, reuse, and the development of new supplies. The Rangeview 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 customers through one system and a second system to supply raw or reclaimed water for irrigation demands in parks and open spaces. 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 systems in which essentially all effluent water from wastewater treatment plants will be reused to meet non-potable outdoor irrigation water demands. Our dual-distribution systems demonstrate our commitment to environmentally responsible water management policies in our water-short region.

Labor and Raw Materials

We competitively bid contracts for infrastructure improvements (grading, utilities, roads, water, and wastewater infrastructure) at Sky Ranch. Many of our contractors enter fixed priced contracts where the contractor is at risk for cost overruns prior to completion of improvements. Under these fixed-price contracts, the contract prices are established in part based on fixed, firm subcontractor quotes on contracts and on cost and scheduling estimates. These quotes or estimates may be based on several assumptions, including assumptions about prices and availability of labor, equipment and materials, and other issues. Increased costs or shortages of skilled labor, concrete, steel, pipe, and other materials could cause increases in development costs and delays. These shortages and delays may result in delays

in the delivery of the lots under development or the completion of water or wastewater facilities, increase costs for us or other contractors on our projects, reduce gross margins from sales, or subject us to penalties or defaults under our agreements. While we contract with third parties for our labor and materials at a fixed price, which we believe allows us the ability to mitigate the risks associated with shortages of and increases in the cost of labor and building materials, other unforeseen factors may arise which could increase our costs.

Competition

Water and Wastewater Services

We negotiate individual service agreements with our governmental customers and with their developers and/or home builders to design, construct and operate water and wastewater systems and to provide services to end use customers of governmental entities and to commercial and industrial customers. These service agreements seek to address all aspects of the development of the water and wastewater systems, including:

- (i) the purchase of water and wastewater taps in exchange for our obligation to construct certain wholesale facilities;
- (ii) the establishment of payment terms, timing, capacity, and location of special facilities (if any); and
- (iii) specific terms related to our provision of ongoing water and wastewater services to our local governmental customers as well as the governmental entities' end-use customers.

Although we have exclusive long-term water and wastewater service contracts for 24,000 acres of the Lowry Ranch, Wild Pointe, and Sky Ranch, providing water and wastewater service is subject to competition elsewhere. Alternate sources of water are available, principally from other private parties such as farmers or others owning water rights that have historically been used for agriculture, and from municipalities seeking to annex new development areas in order to increase their tax base. Our principal competition in areas close to the Lowry Ranch is the City of Aurora. Principal factors affecting competition for water service include the availability of water for the particular purpose, the cost of delivering the water to the desired location (including the cost of required taps), and the reliability of the water supply during drought periods, and the political climate for additional annexations. We estimate that the water assets we own and have the exclusive right to use have a supply capacity of approximately 60,000 SFE units, and we believe that they provide us with a significant competitive advantage along the Front Range. Our legal rights to the Rangeview Water Supply have been confirmed for municipal use, and our water supply is close to Denver area water users. We believe that our pricing structure is competitive and that our water portfolio is well balanced among surface water rights, groundwater rights, storage capacity and reclaimed water supplies.

Land Development

Developing raw land is a highly competitive business, requires substantial upfront capital and typically requires many years to complete. There are many developers, as well as properties and development projects, in the same geographic area in which Sky Ranch is located. Competition among developers and projects is determined by the location of the real estate, the market appeal of the development plan, the cost and value of the end product, the developer's ability to build, market and deliver projects on a timely and cost effective basis, and the availability of water to serve the project. Residential developers sell to home builders, who in turn compete based on location, price/value, market segmentation, product design, and reputation. Commercial, retail, and industrial developers sell to and/or compete with other developers, owners, and operators of real estate for a limited number of potential buyers. We believe we have exceeded the market's expectations with the delivery of our lots at Sky Ranch and have demonstrated the ability and expertise to continue to deliver lots in a large-scale master planned community.

Environmental, Health and Safety Regulation

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act, related state laws, and federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal and certain other aspects of our operations.

Environmental compliance issues may arise in the normal course of operations or because of regulatory changes. We attempt to align capital budgeting and expenditures to address these issues in a timely manner.

Safe Drinking Water Act

The Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency (EPA) to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act and its amendments set standards on the amount of certain microbial and chemical contaminants and radionuclides allowable in drinking water. The State of Colorado has assumed primary responsibility for enforcing the standards established by the Safe Drinking Water Act and has adopted the Colorado Primary Drinking Water Standards (Code of Colorado Regulations 5 CCR 1003-1). Current requirements for drinking water are not expected to have a material impact on our financial condition or results of operations as we have made and are making investments to meet existing water quality standards. In the future, we might be required to change our method of treating drinking water and make additional capital investments if additional regulations become effective.

The federal Groundwater Rule became effective December 1, 2009. This rule requires additional testing of water from well sources and under certain circumstances requires demonstration and maintenance of effective disinfection. In 2009, Colorado adopted Article 13 to the Colorado Primary Drinking Water Standards to establish monitoring and compliance criteria for the Groundwater Rule.

Clean Water Act

The Clean Water Act regulates wastewater discharges from drinking water and wastewater treatment facilities and storm water discharges into lakes, rivers, streams, and wetlands. The State of Colorado has assumed primary responsibility for enforcing the standards established by the federal Clean Water Act for wastewater discharges from domestic water and wastewater treatment facilities and has adopted the Colorado Water Quality Control Act and related regulations, which also regulate discharges to groundwater. It is our policy to obtain and maintain all required permits and approvals for discharges from our water and wastewater facilities and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring, and reporting for wastewater discharges. From time to time, discharge violations might occur which might result in fines and penalties, but we have no reason to believe that any such fines or penalties are pending or will be assessed.

Solid Waste Disposal

The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. We have a program in place to monitor our facilities for compliance with regulatory requirements, and we do not anticipate that costs associated with our handling and disposal of waste material from our water and wastewater operations will have a material impact on our business or financial condition.

Employees and Human Capital

As of August 31, 2024, we employed 39 full-time employees, and all are located in the USA. None of our employees are represented by a union or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relationship with our employees to be good. Approximately 26 percent are employed in our water and wastewater segment, approximately 44 percent are employed in our land development segment and approximately 30 percent are employed for support and other functions. We are committed to creating a strong team environment where employees always treat customers and each other with respect, and where each of us practices the basic principles of integrity, flexibility, honesty, trust, and stewardship: principles we believe go hand-in-hand with achieving success.

Compensation and Benefits Program

Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our shareholders. We provide employees with compensation packages that include base salary, incentive bonuses, and long-term equity awards tied to the value of our stock price and other key performance indicators. We believe that a compensation program with both short-term and long-term awards provides fair and competitive compensation and aligns employee and shareholder interests, including by incentivizing business and individual performance (pay for performance), motivating based on long-term company performance and integrating compensation with our business plans. In addition to cash and equity compensation, we also offer employees benefits such as fully or partially paid health insurance (medical, dental and vision), paid time off, paid sick leave, paid parental leave, paid bereavement time, and a 401(k) plan with a company match.

Diversity and Inclusion

We believe that an equitable and inclusive environment with diverse teams produces more creative solutions, results in better, more innovative services and is crucial to our efforts to attract and retain key talent. We continue to focus on building a pipeline for talent to create more opportunities for workplace diversity and to support greater representation within Pure Cycle. We develop and encourage an inclusive culture through company events, participation in our recruitment efforts, and input into our hiring strategies.

Community Involvement

We aim to give back to the communities where we live and work and believe that this commitment helps in our efforts to attract and retain employees. We offer employees the opportunity to give back through volunteering or company donations to approved causes.

For more information on our diversity and inclusion and community involvement initiatives, please see our ESG page on our website at www.purecyclewater.com.

Other Information

Pure Cycle was incorporated in Delaware in 1976 and reincorporated in Colorado in 2008.

Available Information and Website Address

Our website address is www.purecyclewater.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after filing with the Securities and Exchange Commission (SEC).

These reports and all other material we file with the SEC may be obtained directly from the SEC's website, www.sec.gov/edgar/searchedgar/companysearch.html, under CIK code **276720**. The contents of our website are not incorporated by reference into this report.

Item 1A – Risk Factors

The following section describes the material risks and uncertainties that we believe could have a material adverse effect on our business, financial condition, results of operations, and the market price of our common stock. The risks discussed below include forward-looking statements. Actual results may differ materially from those discussed in these forward-looking statements. These risks should be read in conjunction with the other information set forth in this report, including the accompanying consolidated financial statements and notes thereto.

Risks Related to the Impacts the Economy and External Forces May Have on Our Operations

Our operations are concentrated in the Front Range area of Colorado; we are subject to general economic conditions in Colorado. Our assets and operations are located solely in the Front Range area of Colorado. Our performance could be adversely affected by economic conditions in, and other factors relating to, Colorado, including supply and demand for housing and zoning and other regulatory conditions. To the extent that the general economic conditions in the Front Range area of Colorado deteriorate, the value of our assets, our results of operations and our financial condition could be materially adversely affected.

We are dependent on the housing market and development in our targeted service areas for future revenue. The homebuilding industry is cyclical and a deterioration in industry conditions or downward changes in general economic or other business conditions could adversely affect our business, results of operations, cash flows and financial condition. Providing wholesale water service using our Colorado Front Range water supplies is one of our key sources of future revenue. The timing and amount of this revenue will depend in part on housing developments being built near our water assets. The development of the Lowry Ranch, Sky Ranch and other properties is subject to many factors that are outside our control. If wholesale water sales are not forthcoming or development in our targeted service areas is delayed or curtailed, we may need to use our capital resources, incur additional short or long-term debt obligations, or seek to sell additional equity. We may not be successful in obtaining additional capital. Although there have been positive market gains in the Colorado housing market in recent years, inflation and rising interest rates have caused slowdowns in the homebuilding industry. These economic concerns could have a significant negative impact on our business and financial condition and our plans for future development of additional phases of Sky Ranch.

Although the Colorado economy has become increasingly diverse, the oil and gas industry remains an important segment of the Colorado economy. New statutes, regulations or other initiatives that would limit oil and gas exploration or increase the cost of exploration, as well as declines in the price of oil and gas, among other things, could lead to a downturn in the Colorado economy, including increased unemployment, which would likely have a negative impact on the housing market and our business and financial condition.

In addition, the residential homebuilding industry is cyclical and is highly sensitive to changes in general economic conditions such as levels of employment, consumer confidence and income, availability of mortgage financing for acquisitions, interest rate levels and inflation, cost and availability of raw materials, among other factors. The residential housing market is impacted by federal and state personal income tax rates and provisions, and government actions, policies, programs and regulations directed at or affecting the housing market, including the Tax Cuts and Jobs Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, tax benefits associated with purchasing and owning a home, and the standards, fees and size limits applicable to the purchase or insuring of mortgage loans by government-sponsored enterprises and government agencies. For example, from 2020 to 2022 housing starts as well as home prices in Colorado increased. In 2022 and 2023 due to rising interest rates, the demand for new home starts weakened in the Colorado housing market. Notwithstanding stabilizing house conditions in 2024, the current demand for new homes is subject to continued uncertainty due to many factors, and we could experience declines in the market value and demand for our lots and rental homes, any of which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Significant competition from other development projects could adversely affect our results. Land development is a highly competitive business. There are numerous land developers, as well as properties and development projects, in the same geographic area in which Sky Ranch is located. Many of our land development competitors may have advantages over us, such as more favorable locations, which may provide more desirable schools and easier access to roads and shopping, or amenities that we may not offer, as well as greater financial resources. If other development projects are found to be more attractive to home buyers, home builders or other developers or operators of real estate based on location, price, or other factors, then we may be pressured to reduce our prices or delay further development, either of which could materially adversely affect our business, results of operations, cash flows and financial condition.

The single-family home rental market is also highly competitive. There are numerous companies and individuals that own rental homes in the Sky Ranch area which may have more experience than we do renting single-family homes, better locations, and better pricing. If we are unable to rent the homes at rates that cover our costs or are unable to manage the properties and expenses incurred to manage the properties, the impact to our business, results of operations, cash flows and financial condition could be materially negative.

Our operations could be adversely impacted by increases in material, labor, supplier, logistics and other operating costs, or supply chain delays and shortages, which could cause lower margins or lost sales and adversely impact our business, financial position, results of operations and cash flows, and component price volatility and availability, as well as supplier concentration. The market prices for certain materials and components we purchase, primarily steel and PVC piping, have been volatile. In addition, some supplies are subject to long lead times. Disruptions to the commercial transportation network, including limited container and trucking capacity and port congestion, have increased supplier delivery times for materials to our facilities. Our margins and overall financial performance may be adversely affected by increases in our operating costs, such as material, labor, supplier costs, logistics and energy costs, all of which may be subject to inflationary pressures. Since the onset of COVID-19, we have seen operating costs trending upward, labor shortages, logistics disruptions, commodity cost increases and shortages, and overall increased demand in the land development and water business industries. In addition, some of our customers have experienced raw material shortages. Any such shortages can in turn impact and delay our ability to service our customers. While we seek to mitigate any cost increases, labor impacts and supply chain delays and shortages, these efforts may not be successful, and we may experience adverse impacts due to such factors. We cannot predict the extent of these current trends or other future increases in operating costs. To the extent such costs continue to increase, we may be prevented, in whole or in part, from passing such cost increases through to our existing and prospective customers, or our customers may seek other competitive sources due to supply chain delays, which could have a material adverse impact on our margins, business, financial position, results of operations and cash flows.

Our water business is subject to seasonal fluctuations and weather conditions that could affect demand for our water service and our revenue and that could become more extreme with climate change. We depend on an adequate water supply to meet the present and future demands of our customers and their end-use customers and to continue our expansion efforts. Conditions beyond our control may interfere with our water supply sources. Drought and overuse may limit the availability of water, and such droughts may become more frequent and prolonged with climate change. These factors might adversely affect our ability to supply water in sufficient quantities to our customers, and our revenue and earnings may be adversely affected. Additionally, cool, and wet weather, as well as drought restrictions and our customers' conservation efforts, may reduce consumption demands, adversely affecting our revenue and earnings. Furthermore, freezing weather may contribute to water transmission interruptions caused by pipe breakage. If we experience an interruption in our water supply, it could have a material adverse effect on our financial condition and results of operations. Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than expected or there is more rainfall than expected, the demand for our water may decrease and adversely affect our revenue.

The physical impacts of natural disasters and severe weather conditions could reduce consumer demand for housing, result in service disruptions, delay the closing of the sale of residential lots at Sky Ranch and increase our costs, any of which could harm our sales and results of operations. We conduct our operations in the Colorado Front Range, which is subject to natural disasters, including droughts, tornadoes, wildland fires, and severe weather. The occurrence of natural disasters or severe weather conditions in Colorado or elsewhere could result in interruptions in our water and wastewater operations, delay our construction activities, increase costs, and lead to shortages of labor and materials. Moreover, such extreme weather conditions and natural disasters are likely to increase in frequency and intensity as a result of projected unabated climate change. If our insurance or the insurance of our subcontractors does not fully cover business interruptions or losses resulting from these events, our results of operations could be adversely affected.

1. Risks Related to Our Business and Operations

We may not generate sufficient cash flows from operations or other capital resources to pursue our business objectives. While we have generated net income in the past several years, prior to that we had a history of losses. Our cash flows from operations generally have not been sufficient to fund our operations, and we have been required to raise debt and equity capital and sell assets to remain in operation. Since 2004, we have raised over \$76.0 million through (i) the issuance of more than \$25.0 million of common stock (including the issuance of stock pursuant to the exercise of options, net of expenses), (ii) the issuance of \$5.2 million of convertible debt, which was converted to common stock on January 11, 2011, and (iii) the sale of our Arkansas River water and land for \$45.8 million in cash.

Our continuing development of Sky Ranch requires significant cash expenditures. We have advanced the Sky Ranch CAB \$67.5 million for construction of public improvements in Phases 1 and 2 at Sky Ranch and expect to advance approximately another \$30.0 million for the completion of the Phase 2 public improvements. The Sky Ranch CAB is not required to repay us for advances made or expenses incurred for improvements at Sky Ranch unless and until the Sky Ranch CAB and/or Sky Ranch Districts generate sufficient funds from either tax revenue, fees or by issuing bonds in an amount sufficient to reimburse us for all or a portion of advances made or expenses incurred. We have funded and expect to continue to fund such expenditures with cash on hand and cash flows from operations. As of August 31, 2024, we had \$22 million of cash on hand. If our cash on hand and future cash flows from operations are not sufficient to fund our operations and the significant capital expenditure requirements to continue to develop Sky Ranch, we may be forced to seek to obtain additional debt or equity capital. Economic conditions and disruptions have previously caused substantial volatility in capital markets, including credit markets and the banking industry, increasing the cost, and significantly reducing the availability of financing, which may reoccur in the future. There can be no assurance that financing will be available on acceptable terms or at all.

We may not be able to manage the increasing demands of our expanded operations. We have historically depended on a limited number of employees to administer our operations, interface with governmental entities, market our services, and plan and implement the construction and development of our assets. The execution of contracts for lot sales and the continued development of Sky Ranch, including our single-family home rental business, and the expansion and maintenance of our water and wastewater systems, have increased the size and complexity of our business. The success of our current business and future business development and our ability to capitalize on growth opportunities depends on our ability to attract and retain additional experienced and qualified persons to operate and manage our business. We may not be able to maximize the value of our assets if we are unable to attract and retain qualified personnel and to manage the demands of our growing workforce. State regulations set the training, experience and qualification standards required for our employees to operate specific water and wastewater facilities. Failure to find state-certified and qualified employees to support the operation of our facilities could put us at risk for, among other things, regulatory penalties (including fines and suspension of operations), operational errors at the facilities, improper billing, and collection processes, claims for personal injury and property damage, and loss of contracts and revenue. We may be unsuccessful in managing our operations and growth.

The rates that the Rangeview District is allowed to charge customers on the Lowry Ranch for water services are limited by the Lease with the Land Board and our contract with the Rangeview District and may not be sufficient to cover our costs of construction and operation. The prices charged by the Rangeview District for water service on the Lowry Ranch are subject to pricing regulations set forth in the Lease with the Land Board. Both the tap fees and usage rates and charges are capped at the average of the rates of three nearby water providers. Annually, the Rangeview District surveys the tap fees and rates of the three nearby providers, and the Rangeview District may adjust tap fees and rates and charges for water service on the Lowry Ranch based on the average of those charged by this group. We receive 100% of tap fees and 98% of water usage fees charged by the Rangeview District to its customers after the deduction of royalties owed to the Land Board. Our costs associated with the construction of water systems and the production, treatment and delivery of water are subject to market conditions and other factors, which may increase at a significantly higher rate than that of the fees we receive from the Rangeview District. Factors beyond our control and which cannot be predicted, such as government regulations, insurance and labor markets, drought, water contamination and severe weather conditions may result in additional labor and material costs that may not be recoverable under the current rate structure. Both increased customer demand and increased water conservation may also impact the overall cost of our operations. If the costs for construction and operation of our wholesale water services, including the cost of extracting our groundwater, exceed our revenue, we would be providing water service to the Rangeview District for use at the Lowry Ranch at a loss. The Rangeview District may petition the Land Board for rate increases; however, there can be no assurance that the Land Board would approve a rate increase request. Further, even if a rate increase were approved, it might not be granted in a timely manner or in an amount sufficient to cover the expenses for which the rate increase was sought.

Our water sales for the past several years have been highly concentrated among companies providing hydraulic fracturing services to the oil and gas industry, and such sales can fluctuate significantly. Our water sales have been historically concentrated directly and indirectly with a limited number of companies providing hydraulic fracturing services to the oil and gas industry in our service area. Generally, investment in oil and gas development is dependent on the price of, and demand for, oil and gas. We have no long-term contractual commitments that will ensure these sales continue in the future. The oil and gas industry has periodically gone through periods when activity has significantly declined due to low oil and gas prices, reduced world-wide demand and other impacts to the world-wide economy such as the COVID-19 pandemic, which have had a negative impact on the water we sell to these operators.

Further sales to this customer base as well as renewals of our oil and gas leases in the future may be impacted by ballot initiatives, new federal and state legislation, regulations by multiple federal and state agencies such as the U.S. Environmental Protection Agency, the Colorado Energy and Carbon Management Commission (CECMC, formerly the Colorado Oil and Gas Conservation Commission

(COGCC)), the Colorado Department of Public Health and Environment (DPHE), and the Colorado Air Quality Control Commission (AQCC), local zoning rules, court interpretations of laws and regulations at all levels of government, fracking technologies, the success of the wells, and the price of oil and gas, among other things. We could see increased opposition and tougher oversight of oil and gas operations, which could reduce the demand for water for fracking and reduce our associated water sales as a result of the enactment and implementation of multiple state bills over the last several years targeting the siting of, emissions from, and chemicals used in oil and gas production, such as Senate Bill SB 19-181 (increased local and state government oversight of oil and gas siting and environmental impacts), SB 22-198 (fees on oil and gas wells for an orphaned well fund), HB 22-1361 (audits of and reporting on oil and gas taxes and emissions), HB 22-1244 (toxic air emissions reporting, permitting, and controls from certain sources, which may be more stringent than the federal Clean Air Act), HB 22-1348 (disclosure of chemicals used in oil and gas operations and ban on use of added perfluoroalkyl or polyfluoroalkyl chemicals), HB 22-1345 (ban on PFAS in oil and gas products), and SB 24-230 (establishing new fees on oil and gas production). The oil and gas industry, and associated demand for water for fracking, may also be impacted by the adoption of new or revised state regulations in recent years, such as: (i) Colorado Energy and Carbon Management Commission fees and financial assurance requirements for oil and gas facilities (adopted in 2022) and a new rule (adopted in October 2024) requiring that oil and gas operators seeking drilling permits must analyze the cumulative impacts of their proposals and conduct enhanced community outreach in disproportionately impacted communities; (ii) AQCC GHG intensity standards that will become more restrictive over time and apply to upstream oil and gas operations, including well sites and production facilities and related “verification” and monitoring requirements (Regulation 7); (iii) AQCC reporting and emission reduction requirements for GHGs, ozone precursors, and hydrocarbons from oil and gas operations and industrial wastewater treatment, as well as regional haze limit (Regulations 7, 22, and 23); (iv) a list of toxic air contaminants identified by the DPHE in 2022 as a first step in implementing HB 22-1244; and (v) additional maintenance, monitoring, and emissions regulations on the upstream and midstream oil and gas industry facilities in AQCC Regulation Numbers 7 and 22. Recent federal laws and regulatory initiatives may also impact the oil and gas industry and thus associated water demand and sales. For example, the federal Inflation Reduction Act of 2022 imposes a fee on methane emissions from certain oil and gas facilities, and it increases certain corporate taxes that could impact the oil and gas industry. The Inflation Reduction Act also increases the amount of federal property available for oil and gas leasing, which could impact the desirability of developing oil and gas on private property. In addition, the EPA issued a final rule that includes, among other things, revised “New Source Performance Standards” regulating greenhouse gas (GHG), methane, and volatile organic compounds (VOCs) emissions for the Crude Oil and Natural Gas source category pursuant to the Clean Air Act, as well as emissions guidelines for states to follow in developing state plan to establish performance standards to limit GHG emissions from existing sources in the Crude Oil and Natural Gas source category. That final rule was announced by the EPA on December 2, 2023 and published in the Federal Register on March 8, 2024, and a new interim final rule to make technical corrections was issued on June 11, 2024. Other future potential laws, regulations, or ballot initiatives may also impact oil and gas development and, therefore, our water sales.

A significant portion of our water supplies come from non-renewable aquifers and inadequate water and wastewater supplies could have a material adverse effect on us. A significant portion of our water supplies comes from non-renewable Denver Basin aquifers. The State of Colorado regulates development and withdrawal of water from the Denver Basin aquifers to a rate of 1 percent of the aggregate amount of water determined to be in storage each year, which means our supply should last approximately 100 years even if no efforts were made to conserve or recharge the supply. Nonetheless, we may need to seek additional water supplies to prove our supply can last for 300 years as our non-renewable supplies are depleted. While the acquisition of Lost Creek water, a renewable “surface” water right that is diverted from an alluvial aquifer that is hydrologically connected to the surface water system, mitigates some of the risk of owning non-renewable supplies, if we are unable to obtain sufficient replacement supplies, it would have a material adverse impact on our business and financial condition. Additionally, the cost of developing and withdrawing water from the aquifers is expected to increase over time, and we may not be able to recover the increased costs through our rates and charges.

In many areas of Colorado, water supplies are limited, and in some cases, current usage rates exceed sustainable levels for certain water resources. We do not currently anticipate any short-term concerns with physical, legal, or continuous availability issues in our service areas. Insufficient availability of water or wastewater treatment capacity could materially and adversely affect our ability to provide for expected customer growth necessary to increase revenue. We continuously look for new sources of water to augment our reserves in our service areas, but our ability to obtain such rights may depend on factors beyond our control. We may not be able to obtain sufficient water or water supplies to increase customer growth necessary to increase or even maintain our revenues. Also, increased costs to develop water from aquifers could have a significant negative impact on our business, results of operations, cash flows and financial condition.

To utilize our water resources as intended, we may need to apply for a change of use with the water court from time to time. This may take several years to complete, and there is no assurance that we will be able to obtain a favorable ruling, which may adversely impact our business and financial condition. Water resources that have been historically used for purposes other than municipal and industrial uses or that have been used in other locations, such as or Lost Creek Water, require a favorable change of use ruling by the water court in order for us to use the water as planned. A change of use ruling by the water court could take several years and be a costly and contentious effort since it is anticipated that many parties will oppose the change of use and the transfer of the water. There are several conditions which must be satisfied prior to our receiving a change of use decree. One condition that we must satisfy is a showing of anti-speculation in which we, as the applicant, must demonstrate that we have contractual obligations to provide water service to customers prior to the water court ruling on the transfer of a water right. The water court is also expected to limit the transfer to the “consumptive use” portion of the water right and to address changing the historic use of the water from agricultural uses to other uses such as municipal and industrial use. We expect to face opposition to any consumptive use calculations of the historic agricultural uses of this water. The water court may impose conditions on our transfer of the water rights such as requiring us to mitigate the loss of the farming tax base, imposing re-vegetation requirements to convert soils from irrigated to non-irrigated, imposing water quality measures, and imposing limitations on the timing and location of transfers to mitigate other users who may be affected by such transfers. Any such conditions, including a change of use ruling that precludes us from using the water resource as intended, would likely increase the cost of transferring the water rights or require us to develop alternative plans or water resources, which could result in substantial delays or expense which may adversely impact our business and financial condition.

A failure of the water wells or distribution networks we own, or control could result in losses and damages that may affect our business and financial condition. We distribute water through a network of pipelines and store water in storage tanks and ponds. A failure of these pipelines, tanks or ponds could result in injuries and damage to property for which we may be responsible, in whole or in part. The failure of these pipelines, tanks, or ponds may also result in the need to shut down some facilities or parts of our water distribution network to conduct repairs. Such failures or shutdowns may limit our ability to supply water to our customers and to meet the water delivery requirements prescribed by our contracts, which could adversely affect our business, results of operations, cash flows, and financial condition. Any business interruption or other losses might not be covered by insurance policies or be recoverable through rates and charges, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Development on the Lowry Ranch is not within our control and is subject to obstacles. Development on the Lowry Ranch is controlled by the Land Board, which is governed by a five-person citizen board of commissioners, each appointed for a four-year term by the Colorado governor and approved by the Colorado Senate. The Land Board’s focus with respect to issues such as development and conservation on the Lowry Ranch tends to change as membership on the Land Board changes. In addition, there are often significant delays in the adoption and implementation of plans with respect to property administered by the Land Board because the process involves many constituencies with diverse interests. In the event water sales are not forthcoming or development of the Lowry Ranch is delayed or abandoned, we may need to use our capital resources, incur additional short or long-term debt obligations, or seek to sell additional equity. We may not have sufficient capital resources or be successful in obtaining additional operating capital.

Because of the prior use of the Lowry Ranch as a military facility, environmental clean-up may be required prior to development, including the removal of unexploded ordnance. The U.S. Army Corps of Engineers has been conducting unexploded ordnance removal activities at the Lowry Ranch for more than 30 years. Continued activities are dependent on federal appropriations, and the Army Corps of Engineers has no assurance from year to year of such appropriations for its activities at the Lowry Ranch.

We have limited experience with the development of real property. While we have extensive experience designing and constructing water and wastewater facilities and maintaining and operating these facilities, despite having completed Phase 1 and a substantial amount of Phase 2A and 2B at Sky Ranch, we have less experience developing real property. We may underestimate the capital expenditures required to complete the development of Sky Ranch, including the costs of certain infrastructure improvements and construction costs related to our single-family home rental business. We have limited experience managing property development and construction activities, including the permitting and other approvals required, which may result in delays in completing Sky Ranch. Furthermore, construction and funding of a new interchange on I-70 may delay the issuance of permits beyond Phase 2.

The funds we are advancing to the Sky Ranch CAB for construction of public improvements might not be repaid, which would negatively impact our income, gross margin on selling lots, and cash flows. Since the start of development at Sky Ranch, we have advanced the Sky Ranch CAB \$67.5 million for construction of public improvements and expect to fund an additional estimated \$30 million to complete the buildout of public improvements in Phase 2. At August 31, 2024, of the amounts advanced to the Sky Ranch CAB, \$41.0 million has not been repaid, including interest and project management fees. We expect these amounts will be repaid by the

Sky Ranch CAB. No payment is required by the Sky Ranch CAB with respect to construction of public improvements unless and until the Sky Ranch CAB and/or the Sky Ranch Districts have generated sufficient funds from property taxes, fee, or the issuance of municipal bonds in an amount sufficient to reimburse the Company for all or a portion of advances provided or expenses incurred for reimbursables. The ability and obligation of the Sky Ranch CAB to reimburse us is dependent on sufficient home sales and commercial development occurring at Sky Ranch to create a tax base that would enable the Sky Ranch CAB to issue bonds to pay for the improvements. If development at Sky Ranch is delayed or curtailed for any reason, including regulatory restrictions, a downturn in the economy or default by one or more of the builders at Sky Ranch, the Sky Ranch CAB may not have sufficient revenues to issue bonds.

Supply shortages and risks related to the demand for skilled labor and building materials could increase costs and delay closings. The property development and home construction industries are highly competitive for skilled labor and materials. Labor shortages throughout the United States including the Colorado Front Range have become more acute in recent years as the supply chain adjusts to uneven industry growth. Increased costs or shortages of skilled labor and/or concrete, steel, pipe, lumber, and other materials could cause increases in property development and home construction costs and delays, including in our single-family home rental business. We are unable to pass on increases in property development costs to home builders with whom we have already entered purchase and sale contracts for residential lots, at fixed prices, which were signed well in advance of development. Sustained increases in development and construction costs may, over time, erode our margins. Our ability to build new rental homes, even though we outsource the construction, may be adversely affected by circumstances beyond our control, including: work stoppages, labor disputes, and shortages of qualified trades people, such as carpenters, roofers, masons, electricians, and plumbers; changes in laws relating to union organizing activity; lack of availability of adequate utility or infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured or may not, despite our quality control efforts, engage in proper construction practices or comply with applicable regulations; inadequacies in components purchased from building supply companies; and shortages or delays in availability, or fluctuations in prices of building materials. Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, constructing new rental homes.

We may purchase additional land parcels for development or other purposes, thereby exposing us to certain financial risks. We may purchase additional land parcels for development, construction, or other purposes. As noted above, land development and construction require significant cash expenditures before positive cash flows can be generated from the sale of lots, rental of homes, and water and wastewater tap fees. If there is considerable lag time between when we acquire the land and when we begin selling finished lots or renting homes, we may generate significant operating losses. In addition, if sales of homes on the finished lots are delayed, renters cannot be found in a timely manner, our revenue from water and wastewater resource development services will be delayed. If our cash on hand and future cash flows from operations are not sufficient to fund our operations and the significant capital expenditure requirements to develop any acquired land, construct housing and build water and wastewater systems, we may be forced to seek to obtain additional debt or equity capital. There can be no assurance that financing will be available on acceptable terms or at all.

Delays in property development may extend the time it takes us to recover our property development costs and delay our revenue from water and wastewater resource development services. We incur many costs, such as the costs of preparing land, finishing and entitling lots, installing roads, sewers, water systems and other utilities, taxes and other costs related to ownership of the land and/or developing lots on behalf of builders who purchase the land, before we close on the sale of finished lots to home builders. If the rate at which we develop residential lots slows, we may incur additional costs, and it may take longer for us to recover our costs. In addition, if sales of homes on the finished lots are delayed, or we are unable to find renters in a timely manner, our revenue from water and wastewater resource development services will be delayed. A significant downturn in the housing market could cause our builders to delay building homes on their lots until market conditions improve, and could result in us not renting our single-family rentals for rates that provide a sufficient return. Builders with contracts that do not require purchasing the lot until we deliver a finished, ready-to-build lot, could walk away from the contract prior to closing without consequence other than the forfeiture of their upfront deposits for the lot, utilities and other improvements. If a builder elected to walk away without cause, we would be entitled to keep these deposits as liquidated damages, but the deposits would not be sufficient to cover the expenses we expect to incur to finish the lots for delivery. We would not be able to recover our costs until we were able to sell the finished lots to another builder. If the original builder did not go through with the closing due to a poor housing market, we would likely have difficulty finding another buyer for the same reason. For our single-family rental homes, we incur the costs to construct the home, for which we currently have funding in place, but there are no assurances that funding will remain in place for future growth. The costs of construction of the single-family rentals are anticipated to be paid for over time by the rental income, but we may not be able to rent the homes for amounts sufficient to cover these costs.

Fluctuations in real property values may require us to write-down the book value of our land interests. The land development industry is subject to significant variability and fluctuations in real property values. As a result, we may be required to write-down the value of our Sky Ranch, single-family home rentals, or other land interests in accordance with accounting principles generally accepted in the United States of America, and some of those write-downs could be material. Any material write-downs could have a material adverse effect on our business, financial condition, or results of operations. We assess our land interests when indicators of impairment exist. Indicators of impairment include a decrease in demand for housing due to soft market conditions; competitive pricing pressures that reduce the average sales price of finished lots; sales absorption rates below management expectations; a decrease in the value of homes or the underlying land due to general market conditions, actual or perceived risks due to proximity to oil and gas drilling operations, or other reasons; and a decrease in projected cash flows for a project.

Our land development segment may be subject to risks related to oil and gas operations in the vicinity of our Sky Ranch development, which could have an adverse impact on the marketability and/or value of our Sky Ranch property. We have leased the minerals underlying Sky Ranch to a major exploration and production company, which may limit the location of development on the land. Oil and gas extraction is an inherently dangerous activity that can potentially lead to air and water contamination, fire, explosion, subsidence, and other hazards. While the State of Colorado, local governments, and private operators have regulations and procedures in place intended to mitigate these risks, there can be no assurances that these safeguards will be effective in all cases with respect to any oil and gas activity around Sky Ranch. The existence of oil and gas wells and drilling activity in or near our property and public concern regarding the negative health impacts from emissions near drilling and hydraulic fracturing sites, may adversely impact the marketability and/or value of the lots at Sky Ranch and decrease demand for homes in proximity to oil and gas operations, negatively impacting our land development segment, which could also negatively impact our business and financial condition.

Our single-family home development activities expose us to additional operational and real estate risks, which may adversely affect our financial condition and operating results. In 2021 we launched a new division that involves the construction of single-family homes to be used for rental purposes. We had no previous track record of building or maintaining homes for rent. Rental home construction can involve substantial up-front costs before a home is available for rent and generates income. In addition to the up-front costs, building rental homes involves potentially significant new risks to our business, such as delays or cost increases due to changes in or failure to meet regulatory requirements, including permitting and zoning regulations, failure of lease rentals on newly-constructed properties to achieve anticipated investment returns, inclement weather, adverse site selection, unforeseen site conditions, construction materials and labor and other risks described below. We may be unable to achieve our objective of building new rental homes that generate acceptable returns and, as a result, our growth and results of operations may be adversely impacted.

We will depend on our tenants for all of our rental home revenue. Poor tenant selection and defaults and nonrenewal by our tenants may adversely affect our reputation, and financial performance. We are dependent on rental income from tenants for all of our rental home revenue. As a result, the success of this division depends in large part upon our ability to attract and retain qualified tenants for our properties. Our reputation and financial performance would be adversely affected if a significant number of our tenants fail to meet their lease obligations or fail to renew their leases. For example, tenants may default on rent payments, make unreasonable and repeated demands for service or improvements, make unsupported or unjustified complaints to regulatory or political authorities, use our properties for illegal purposes, damage or make unauthorized structural changes to our properties that are not covered by security deposits, refuse to leave the property upon termination of the lease, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, fail to comply with local regulations, sublet to less desirable individuals in violation of our lease or permit unauthorized persons to live with them. Damage to our properties may delay re-leasing after eviction, necessitate expensive repairs or impair the rental income or value of the property resulting in a lower than expected rate of return. Increases in unemployment levels and other adverse changes in the economic conditions in our market could result in substantial tenant defaults.

Our planned lease terms could require us to re-lease our properties frequently, which we may be unable to do on attractive terms, on a timely basis or at all. We anticipate substantially all of our leases having a duration of one year. As these leases will permit tenants to leave at the end of the lease term without penalty, we anticipate our rental revenue may be affected by declines in market rents more quickly than if our leases were for longer terms. Annual leases may result in high turnover, which involves costs such as restoring the properties, marketing costs and lower occupancy levels. Our tenant turnover rate and related cost estimates may be less accurate than if we had more operating data upon which to base such estimates. Moreover, there are no assurances that our leases will be renewed on equal or better terms or at all. If our tenants do not renew their leases or the rental rates for our properties decrease, our operating results could be adversely affected.

Tenant relief laws, including laws restricting evictions and other regulations could limit our ability to evict bad tenants which may negatively impact our rental income and profitability. Landlords of numerous properties tend to be involved in evicting tenants who are not paying their rent or are otherwise in material violation of the terms of their lease. Eviction activities impose legal and managerial expenses that would raise our costs. The eviction process is typically subject to legal barriers, mandatory “cure” policies and other sources of expense and delay, each of which may delay our ability to gain possession and stabilize the property.

It would be difficult for us to quickly generate cash from sales of our properties. Real estate investments, particularly large portfolios of properties, are relatively illiquid. If we had a sudden need for significant cash, it would be difficult for us to fund such need quickly through a sale of our rental properties.

Products supplied to us and work done by subcontractors can expose us to risks that could adversely affect our business.We rely on subcontractors to perform the property development, including the construction of our single-family rental homes, and in many cases, to select and obtain building materials. Subcontractors may use improper construction processes or defective materials. Defective products can result in the need to perform extensive repairs. The cost of complying with our warranty obligations may be significant if we are unable to recover the cost of repairs from subcontractors, materials suppliers and insurers.

2. Risks Related to Legal, Regulatory, and Environmental, Health and Safety Matters

Government regulations and legal challenges may delay the closing of the sale of our residential lots, increase our expenses or limit other activities, which could have a negative impact on our results of operations. The approval of numerous governmental authorities must be obtained in connection with both our water and wastewater projects and our land development activities, and these governmental authorities often have broad discretion in exercising their approval authority. We incur substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs. Various local, state and federal statutes, ordinances, rules and regulations concerning health and safety, site and building design, environmental, zoning, and similar matters apply to and/or affect the construction and operation of our water and wastewater systems and our land development activities. For example, as detailed further below, the CECMC adopted regulations that took effect in 2021 which implement SB 19-181 by imposing minimum distances between new oil and gas drilling operations and residences, schools, and childcare centers. SB 19-181 also empowers local governments to enact regulations that are stricter than state requirements pertaining to the surface impacts of oil and gas operations. Thus, local zoning or other regulations may seek to create stricter setbacks from oil and gas drilling operations or impose other restrictions on the use of land. For example, Arapahoe County adopted oil and gas regulations in November 2021 and amended those regulations in 2023 to include, among other things, a one-mile setback from existing and planned reservoirs, subject to certain exceptions that may allow a 2,000-foot setback. That 2,000-foot minimum setback was once again amended in November 2023, requiring the setback from an occupied structure to be at 3,000 feet, allowing for a setback of not less than 1,000 feet through variance procedures, and increasing the setback to 3,000 feet for well pad sites that are hydrologically separated from existing and planned reservoirs, permitting a setback of 2,000 feet if approved through a Use by Special Review process. Similarly, in 2021, Adams County adopted a rule requiring oil and gas facilities to be set back 2,000 feet from residences, schools, and certain waterbodies. As these state and local setback regulations are implemented, and to the extent that additional regulations are enacted, the value of the land that we already own or the availability of land that we are looking to acquire may decline, either of which may adversely impact the financial position, results of operations and cash flows of our business. In addition, our ability to obtain or renew permits or approvals and the continued effectiveness of permits already granted or approvals already obtained depends on factors beyond our control, such as changes in federal, state, and local policies, rules and regulations and their interpretations and application. Furthermore, we are subject to various fees and charges of government authorities designed to defray the cost of providing certain governmental services and improvements. For example, local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions, as well as requiring concessions or that the property developer and/or home builder construct certain improvements to public places such as parks and streets or fund schools. New building code energy laws and regulations may also adversely impact our costs of construction. For example, HB 22-1362 requires the Colorado Energy Office to identify by 2025, and local governments to adopt by 2026, more energy efficient and low carbon building codes. Further, HB 23-1161 establishes water and energy efficiency standards for a range of appliances, which could impact appliance costs and, relatedly, costs for finishing new buildings. HB 23-1233 requires the adoption of regulations to wire multifamily buildings to be solar-ready and electric vehicle-ready, which could negatively impact our costs.

Municipalities or state water agencies may restrict or place moratoriums on the availability of utilities, such as water and sewer taps, which could have an adverse effect on our business by causing delays or increasing our costs.

We must provide water that meets all federal and state regulatory water quality standards and operate our water and wastewater facilities in accordance with these standards. Changes in regulations governing the supply of drinking water and treatment of wastewater may have a material adverse impact on our business. For example, on October 18, 2021, the Biden Administration announced a multi-agency, three-year strategy to begin addressing per- and polyfluoroalkyl substances (PFAS), known as “forever chemicals.” As a part of ongoing efforts to implement that initiative, the EPA: (i) finalized a rule in December 2021 pertaining to monitoring of PFAS in drinking water; (ii) issued a final rule in April 2024 to establish regulatory levels for PFOA, PFOS, PFNA, PFHxS, PFBS, and GenX chemicals in drinking water; (iii) issued a final rule in May 2024 to designate two of the most widely used PFAS – PFOA and PFOS – as hazardous substances under CERCLA, or Superfund; (iv) announced a proposed rule in February 2024 to add nine specific PFAS substances, their salts, and their structural isomers to its list of hazardous constituents under RCRA; (v) issued numerous notices concerning the addition of certain PFAS substances to the Toxics Release Inventory; and (vi) expects to develop additional rules restricting PFAS discharges from industrial sources. These new regulatory initiatives addressing PFAS in drinking water could impact the water side of our business.

With respect to service of customers on the Lowry Ranch, the Rangeview District’s rates might not be sufficient to cover the cost of compliance with additional or more stringent requirements, or we may be required to reserve more water than necessary for use on the Lowry Ranch to ensure the proper level of service to Lowry Ranch customers. If the cost of compliance were to increase, we anticipate that the rates of the nearby water providers that the Rangeview District uses to establish its rates and charges would increase to reflect these cost increases, thereby allowing the Rangeview District to increase its rates and charges. However, these water providers may not raise their rates in an amount that would be sufficient to enable the Rangeview District (and us) to cover any increased compliance costs.

Changes in other environmental laws may also affect, for example, how we manage storm water runoff, wastewater discharges and dust; how we develop or operate on properties on or affecting resources such as wetlands, endangered species, cultural resources, or areas subject to preservation laws; and how we address contamination. With respect to wetlands, the U.S. Supreme Court’s 2023 decision in *Sackett v. Environmental Protection Agency* narrowed federal jurisdiction over wetlands under the Clean Water Act and related permitting requirements, which could simplify our permitting requirements for building near some wetlands. Since the *Sackett* decision, various challenges have continued in federal courts in an effort to further clarify the scope of federal jurisdiction. Indeed, Colorado passed HB 24-1379, requiring the Water Quality Control Commission to establish requirements, prohibitions, and standards for the regulation of discharged dredge and fill materials into state waters, including wetlands, and administering a state dredge and fill discharge authorization program, expected to be established by 2026. It is expected that further clarifications and changes may arise through implementing federal regulations, additional litigation over application of the Court’s decision, and/or state laws and regulations.

Government agencies may initiate audits, reviews, or investigations of our business practices to ensure compliance with applicable laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. Further, we may experience delays and increased expenses because of legal challenges to our proposed development activities, whether brought by governmental authorities or private parties. In addition, tariffs imposed by the United States on imported steel could increase our property development costs. It is possible that new standards could be imposed that will require additional capital expenditures or raise our operating costs. With respect to service of customers on the Lowry Ranch, the Rangeview District’s rates might not be sufficient to cover the cost of compliance with new requirements. Although we would expect the rates of the nearby water providers that the Rangeview District uses to establish its rates and charges to increase to cover increased compliance costs, such rates may not cover all our costs and our costs of complying with new standards or laws could adversely affect our business, results of operations or financial condition. Our noncompliance with environmental laws could result in fines and penalties, obligations to remediate, permit revocations and other sanctions.

Laws and regulations related to climate change, greenhouse gases, and energy may adversely affect us by directly and indirectly increasing the cost of or restricting our planned future growth activities. A variety of state legislation, regulations, and policies have been enacted in recent years relating to energy, climate change, greenhouse gas emissions reporting and controls, land use, and energy efficient building codes, in addition to the numerous above-discussed state and federal laws and regulations adopted in the past year regulating the siting of, emissions from, and chemicals used in oil and gas production. For example and as mentioned above, HB 22-1362 requires energy efficient and low carbon building codes to be adopted by the state and local governments by 2025 and 2026, respectively. Additionally, HB 23-1233 will require multifamily buildings to be solar-ready and electric vehicle-ready. Our future housing development costs and the cost of operating and maintaining our multifamily housing developments could be negatively impacted by HB 22-1362, and HB 23-1233, in conjunction with HB 23-1161 (appliance efficiency standards) and earlier enacted efficiency standards for appliances, plumbing fixtures, and buildings (e.g., HB 19-1231, HB 19-1260).

Colorado has also enacted ambitious GHG reduction targets, initially with HB 19-1261 and recently made yet more stringent with SB 23-016, which aims to reduce the state's overall greenhouse gas emissions 100% below 2005 levels by 2050 and includes a series of interim targets. These legislated targets could lead to additional regulation impacting the housing development, water, and oil and gas industries in the future, which could increase our costs. There are also ongoing efforts to implement these greenhouse gas targets, other bills (e.g., HB 19-096, requiring GHG emissions reporting by certain entities pursuant to AQCC regulations; SB 23-1210, requiring the Colorado Energy Office to create a "carbon management roadmap"), and the Colorado Governor's Colorado Greenhouse Gas Pollution Reduction Roadmap (first released in 2021, and updated in 2024) identifying strategies to reduce greenhouse gas emissions from a variety of sources, including buildings, transportation, and oil and gas mining and production. For example, pursuant to 19-096 the AQCC adopted and updated its Air Regulation Number 22 and Regulation Number 7 requiring monitoring, reporting, and reduction of GHGs and ozone precursors from certain categories of emitters, such as industrial wastewater treatment facilities and oil and gas operators.

In addition, at the federal level, the SEC's climate-related financial risks disclosures and greenhouse gas reporting rule, finalized in 2024, could impose additional compliance costs on our business, as well as for the oil and gas producers with whom we do business. As climate change concerns continue to grow, enactment of additional climate and energy legislation and regulations at the state, local, and federal levels may continue, and compliance with legislation and regulations of this nature is expected to become more costly.

On top of the direct impacts of climate and energy-related policies, there may also be indirect impacts. Energy-related initiatives affect a wide variety of companies throughout the United States and the world and, because our operations are dependent on significant amounts of raw materials, such as pipe, steel, and concrete, they could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of the materials used in the development of our properties are burdened with expensive tariffs, cap and trade and similar taxes and regulations.

Our construction of water and wastewater projects and improvements at Sky Ranch may expose us to certain completion, performance, and financial risks. We rely on independent contractors to construct our water and wastewater facilities and Sky Ranch lot improvements. These construction activities involve risks, including shortages of materials and labor, work stoppages, labor relations disputes, injuries to third parties, damages to property, weather interference, engineering, environmental, permitting, or geological problems and unanticipated cost increases. These issues could give rise to delays, cost overruns or performance deficiencies, or otherwise adversely affect the construction or operation of our water and wastewater delivery systems and the construction and delivery of residential lots. In addition, we may experience quality problems in the construction of our systems and facilities, including equipment failures. We may not meet the required deadlines under our sale and construction contracts. We may face claims from customers or others regarding product quality and installation of equipment placed in service by contractors.

The sales contracts at Sky Ranch and contracts for the water and wastewater facilities that we design and construct are fixed-price contracts, in which we bear all or a significant portion of the risk for cost overruns. Under these fixed-price contracts, contract prices are established in part based on fixed, firm subcontractor quotes on contracts and on cost and scheduling estimates. These quotes or estimates may be based on several assumptions, including assumptions about prices and availability of labor, equipment and materials, and other issues. If these subcontractor quotations or cost estimates prove inaccurate, or if circumstances change, cost overruns may occur, and our financial results would be negatively impacted. In many cases, the incurrence of these additional costs would not be within our control.

Pursuant to various contracts related to the development of Sky Ranch, we guarantee that the project, when completed, will achieve certain performance standards, meet certain quality specifications, and satisfy certain requirements for governmental approvals. If we fail to complete the project as scheduled, meet guaranteed performance standards or quality specifications, or obtain the required governmental approvals, we may be held responsible for cost impacts and/or penalties to the customer resulting from any delay or for the costs to alter the project to achieve the performance standards and the quality specifications and to obtain the required government approvals. To the extent that these events occur and are not due to circumstances for which the customer accepts responsibility or cannot be mitigated by performance bonds or the provisions of our agreements with contractors, the total costs of the project would exceed our original estimates and our financial results would be negatively impacted.

We, or our subcontractors, are required to secure performance and completion bonds for certain contracts and projects. The market for surety companies has become increasingly risk averse. We and our subcontractors secure performance and completion bonds for our contracts from these surety companies. To the extent we or our subcontractors are unable to obtain bonds, we may breach existing agreements and/or not be awarded new contracts. We may not be able to secure performance and completion bonds when required.

The enactment and implementation of SB 19-181 increasing state and local regulatory oversight of oil and gas development could have an adverse effect on our water sales to the oil and gas industry for hydraulic fracturing (fracking) and demand for new homes at Sky Ranch. Enacted in 2019, SB 19-181 authorizes local governments to approve the siting of oil and gas locations and regulate the surface impacts of oil and natural gas development through local requirements that may be more stringent than state requirements. SB 19-181 also changed the mission of the Colorado Energy and Carbon Management Commission (or, at the time, the Colorado Oil and Gas Conservation Commission) from fostering responsible and balanced development of natural resources and oil and gas, to regulating the development and production of natural resources and oil and gas in order to “protect” and “minimize” “adverse impacts to public health, safety, and welfare, including protection of the environment and wildlife resources. SB 19-181 also requires what is now the Colorado Energy and Carbon Management Commission and the AQCC to undertake rulemakings on environmental protection, facility siting, increased inspections and public disclosures, elimination of hard caps on application fees, increasing required financial assurances, and minimizing emissions of hydrocarbons and other compounds. The CECMC and the AQCC have promulgated several rules pursuant to SB 19-181 over the past several years, as summarized below.

Regulations implemented by the Colorado Energy and Carbon Management Commission pursuant to SB 19-181 could adversely impact our land development activities by limiting the number of lots available for land development in Colorado and could adversely impact our water sales for fracking by limiting the land available for oil and gas production. As a part of implementing SB 19-181, the CECMC approved a rule (Setback Rule) imposing setbacks and siting requirements for well locations. The Setback Rule, which took effect in 2021, prohibits, without exception, working well pad surfaces from being located within 2,000 feet of a school facility or childcare center, or within 500 feet from one or more residential buildings that are not subject to a surface use agreement or waiver. The Setback Rule also generally prohibits any well pad surface from being located greater than 500 feet and less than 2,000 feet from a residential or high occupancy building, but allows such locations to obtain an exemption by satisfying certain requirements (such as consent from owners and tenants) or by obtaining a CECMC finding, after a hearing, that the conditions of approval will provide “substantially equivalent protections” to a 2,000 foot setback for public health, safety, welfare, the environment, wildlife resources, and disproportionately impacted communities.

Depending on how the Setback Rule is applied and interpreted, it could have the effect of limiting property development within 2,000 feet of a well pad surface. As noted above, to develop oil and gas near residential or high occupancy buildings, the applicant will need an exception from the CECMC by obtaining explicit, informed consent from both the landowner and their tenants (as applicable) to the proposed oil and gas location, or by demonstrating that conditions on approval will provide “substantially equivalent protections” to a 2,000-foot setback. Applicants who are unable to obtain such an exception may be forced to choose between using their property for oil and gas development or for residential and commercial development. So, under a restrictive interpretation of the Setback Rule and its exceptions, we might have to limit drilling on our mineral rights at Sky Ranch to proceed with the occupancy densities we have planned, which would adversely affect our industrial water sales to the oil and gas industry. The Setback Rule could also reduce the supply of other land acquisition opportunities for development. Alternatively, the Setback Rule could make such residential properties more attractive to people who prefer to live farther from oil and gas developments. Additionally, any rules that would require the Land Board to elect between oil and gas or residential and commercial land development with respect to the Lowry Ranch would likely have an adverse effect on our financial condition, because we have the exclusive right to provide water service to customers on the Lowry Ranch, including both lessees of the oil and gas rights on the Lowry Ranch and future occupants of the Lowry Ranch if the Land Board sells the land for development.

Our business could be further impacted by more restrictive local regulations, such as Adams County’s rule requiring oil and gas facilities to be set back 2,000 feet from residences, schools, and certain waterbodies, and Arapahoe County’s rule generally requiring a one-mile setback from existing and planned reservoirs, as well as Arapahoe County’s recently adopted rule that increases setbacks from occupied structures (generally 3,000 feet), platted lots, outside activity areas, and water bodies. These local ordinances, as well as similar ordinances that other local jurisdictions may implement in the future, may adversely impact the buildable area and costs of our development and our clients’ development.

In addition to the CECMC Setback Rule, state agencies have recently adopted other regulations on oil and gas development as a part of implementing SB 19-181 and other recently enacted legislation such as HB 22-1244, HB 19-096, and HB 19-1261. For example, the CECMC in recent years has adopted rules for testing and ensuring the integrity of oil and gas flow lines and well bores and has imposed new fees and financial assurance requirements for oil and gas facilities. The CECCM also adopted a rule in 2024 requiring that oil and gas operators seeking drilling permits must analyze the cumulative impacts of their proposals and conduct enhanced community outreach in disproportionately impacted communities. In addition, the AQCC has, in recent years, approved rules calling for more frequent inspections of oil and gas equipment, imposing new GHG intensity standards for oil and gas operators, and requiring reporting and

reduction of GHG emissions, ozone precursors, and hydrocarbons by oil and gas operations as well as industrial wastewater treatment facilities, where applicable. Similarly, the AQCC adopted increasingly restrictive GHG intensity standards for upstream oil and gas operations and related “verification” and monitoring requirements. The AQCC also published an initial list of toxic air contaminants as a first step toward regulation under HB 22-1244.

These and related rulemaking activities by state agencies and local governments could lead to delays and additional costs for oil and gas operators, which, in turn, could result in a decline in oil and gas drilling activities. A significant decline in oil and gas drilling activities in and around the Lowry Ranch and our Sky Ranch property would have an adverse effect on our water sales for fracking and our financial condition. Further, a significant decline in oil and gas activities throughout Colorado could negatively impact the Colorado economy, which could have an adverse effect on demand for new homes at Sky Ranch.

Future Ballot Initiatives at the State or Local Level Could Restrict Oil and Gas and Land Development.In the past decade, interest groups in Colorado opposed to oil and natural gas development generally, and hydraulic fracturing in particular, have put forward ballot initiatives that, if approved, would have significantly curtailed oil and natural gas development in the state. For example, in 2018, Proposition 112 would have imposed a 2,500-foot setback from any building or waterway in Colorado. Although Colorado voters rejected that measure, the influential power of even failed ballot initiatives is demonstrated by the fact that the Colorado Legislature and Governor passed SB 19-181 the following year and, pursuant to that law, the Colorado Energy and Carbon Management Commission promulgated the similar, though less restrictive, Setback Rule. In August 2023, environmental groups submitted language for the 2024 ballot that would ban new hydraulic fracturing permits after 2030. While that initiative did not make it to the 2024 ballot, similar positions have been set forth by democratic lawmakers of the state, and if such initiatives do make it to the ballot in future years and are passed, it would have material impacts to our oil and gas clients.

We may be subject to significant potential liabilities because of warranty and liability claims made against us.Design, construction, or system failures related to our water and wastewater delivery systems could result in injury to third parties or damage to property. In addition, as a property developer, we are subject in the ordinary course of our business to warranty claims. We are also subject to claims for losses or injuries that occur during our property development activities. We plan to record warranty and other reserves for the residential lots we sell based on historical trends in our market and our judgment of the qualitative risks associated with the type of lots we sell. We have, and many of our subcontractors have, general liability, property, workers’ compensation, and other business insurance. These insurance policies are intended to protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles, and coverage limits. However, it is possible that this insurance will not be adequate to address all warranty and liability claims to which we are subject. Additionally, the coverage offered and the availability of general liability insurance for construction defects are currently limited and policies that can be obtained are costly and often include exclusions based upon past losses insurers suffered as a result of use of defective materials used by other property developers. As a result, our subcontractors may be unable to obtain insurance, and we may have to waive our customary insurance requirements, which increases our and our insurers’ exposure to claims and increases the possibility that our insurance will not be adequate to protect us for all the costs we incur. Any losses that exceed claims against our contractors, the performance bonds and our insurance limits at such facilities could result in claims against us. In addition, if there is a customer dispute regarding performance of our services, the customer may decide to delay or withhold payment to us. No warranty and liability claims have been made against us as of the date of this report.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.Water facility and construction sites are inherently dangerous and pose certain inherent health and safety risks to construction workers and other persons on the site. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our business, financial condition and operating results.

Conflicts of interest may arise relating to the operation of the Rangeview District, the Sky Ranch Districts and the Sky Ranch CAB.Our Chief Executive Officer and three of our employees, one of who is our Chief Financial Officer, constitute the majority of the directors of each of the Rangeview District, the Sky Ranch Districts and the Sky Ranch CAB. These officers and employees, along with Pure Cycle and one unrelated individual, own certain property interests in the 40 acres that constitute the Rangeview District and the acreage that constitutes the Sky Ranch Districts. We have made loans to the Rangeview District to fund its operations. As of August 31, 2024, total principal and interest owed to us by the Rangeview District was \$1.2 million. Pursuant to our water and wastewater service agreements with the Rangeview District, of the net amounts retained by the Rangeview District, the Rangeview District retains

two percent of the revenue from the sale of water to its end-use customers and 10% of the revenue from the provision of wastewater services to its end-use customers. Proceeds from the fee collections will initially be used to repay the Rangeview District's obligations to us, but after these loans are repaid, the Rangeview District is not required to use the funds to benefit Pure Cycle.

Similarly, we have made loans to and incurred expenses reimbursable by the Sky Ranch Districts and the Sky Ranch CAB. As of August 31, 2024, the Sky Ranch CAB owes us \$41.0 million related to construction of public improvements on the Sky Ranch property, including project management fees and interest on these amounts. The Sky Ranch CAB is not required to repay us for advances made or expenses incurred for improvements at Sky Ranch unless and until the Sky Ranch CAB and/or Sky Ranch Districts generate sufficient cash flows from either property taxes, fees or from the issuance of bonds in an amount sufficient to reimburse us for all or a portion of advances made or expenses incurred. We have received benefits from our activities undertaken in conjunction with the Rangeview and Sky Ranch Districts and the Sky Ranch CAB, but conflicts may arise between our interests and those of the Rangeview and Sky Ranch Districts and the Sky Ranch CAB and our officers and employees who are acting in dual capacities in negotiating contracts to which we and a district and/or the Sky Ranch CAB are parties. We expect that the Rangeview and Sky Ranch Districts will expand when more properties are developed and become part of the respective districts, and our officers and employees acting as directors of these districts will have fiduciary obligations to those other constituents. Conflicts may not be resolved in our best interest. In addition, other landowners coming into a district will be eligible to vote and to serve as directors of these districts. Our officers and employees may not remain as directors of these districts, and the actions of subsequently elected boards could have an adverse impact on our operations.

Growth limitations or moratoriums imposed by governmental authorities could adversely affect our land development activities or the land development activities of our customers, which could adversely impact both the land development and water and wastewater segments of our business. In 2023, the State of Colorado enacted HB 23-1255, which generally prohibits local governments from enacting or enforcing local housing growth-restrictions laws that would limit housing supply, development applications, or building permits. However, under certain circumstances, local governments may implement a temporary moratorium of up to 2 years. While this law alleviates concerns that a local government in our planned development areas might permanently restrict new growth, a temporary moratorium could still have the effect of delaying, limiting or halting development within Sky Ranch or other areas where we may provide water and wastewater services or develop land. Because all of the property in Sky Ranch has been platted, we do not expect future growth moratoriums to restrict Sky Ranch as currently planned; however, if temporary growth moratoriums or restrictions are imposed in the areas in which we provide services or develop land, it could negatively impact our ability to develop our land as planned or our customers' ability to grow their communities as anticipated, which would also reduce the number of water and wastewater service customers we expect, which would have a negative impact on our business and financial condition.

We could be hurt by efforts to impose liabilities or obligations on us regarding labor law violations by other persons whose employees perform contracted services. The infrastructure and improvements on our water and wastewater systems and on the finished lots we sell or that we must provide pursuant to service agreements and lot development agreements are done by employees of subcontractors and other contract parties. We do not have the ability to control what these contract parties pay their employees or the work rules they impose on their employees. However, there have been efforts by government agencies including the National Labor Relations Board and the Colorado Department of Labor and Employment to hold contract parties like us responsible for violations of wage and hour laws and other work-related laws by firms whose employees are performing contracted-for services. Governmental rulings that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control.

Contamination to our water supply may result in disruption in our services and litigation, which could adversely affect our business, operating results and financial condition. Our water supplies are subject to the risk of potential contamination, including contamination from naturally occurring compounds, pollution from man-made sources and intentional sabotage. Our land at Sky Ranch and a portion of the Lowry Ranch have been leased for oil and gas exploration and development. Such exploration and development could expose us to additional contamination risks from related leaks or spills. In addition, we handle certain hazardous materials at our water treatment facilities, primarily sodium hypochlorite. Any failure of our operation of the facilities or any contamination of our supplies, including sewage spills, noncompliance with water quality standards, hazardous materials leaks and spills, and similar events, could expose us to environmental liabilities, claims and litigation costs. If any of these events occur, we may have to interrupt the use of that water supply until we are able to substitute the supply from another source or treat the contaminated supply. We cannot assure that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations.

We may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating

results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition and may not be recoverable in rates.

We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs could assert personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Although we have not been a party to any environmental or pollution-related lawsuits, such lawsuits have increased in frequency in recent years. If we are subject to an environmental or pollution-related lawsuit, we might incur significant legal costs, and it is uncertain whether we would be able to recover the legal costs from ratepayers or other third parties. Our insurance policies may not cover or provide sufficient coverage for the losses associated with or the costs of these claims.

We may be adversely affected by any future decision by the Colorado Public Utilities Commission to regulate us as a public utility. The Colorado Public Utilities Commission (CPUC) regulates investor-owned water companies operating for the purpose of supplying water to the public. The CPUC regulates many aspects of public utilities' operations, including establishing water rates and fees, initiating inspections, enforcement and compliance activities and assisting consumers with complaints. We do not believe that we are a public utility under Colorado law. We currently provide services by contract mainly to the Rangeview District, which supplies the public. Quasi-municipal metropolitan districts, such as the Rangeview District and the Sky Ranch Districts, are exempt by statute from regulation by the CPUC. However, the CPUC could attempt to regulate us as a public utility. If this were to occur, we might incur significant expense challenging the CPUC's assertion of jurisdiction, and we may be unsuccessful. In the future, existing regulations may be revised or reinterpreted, and new laws and regulations may be adopted or become applicable to us or our facilities. If we become regulated as a public utility, our ability to generate profits could be limited, and we might incur significant costs associated with regulatory compliance.

The Rangeview District's and our rights under the Lease have been challenged by third parties. In the past the Rangeview District's and our rights under the Lease have been challenged by third parties, including the Land Board. In 2014, in connection with settling a lawsuit filed by us and the Rangeview District against the Land Board, the Land Board, the Rangeview District and we amended and restated the Lease to clarify and update a number of provisions. However, there are issues still subject to disagreement and negotiation, including our rights with respect to revenue from our Export Water after 2081, and it is likely that during the remaining term (through 2081) of the Lease, the parties will disagree over interpretations of provisions in the Lease again. The Rangeview District's or our rights under the Lease could be challenged in the future, which could require potentially expensive litigation to enforce our rights.

Our Lowry Ranch surface water rights are "conditional decrees" and require findings of reasonable diligence. Our surface water interests and reservoir sites at the Lowry Ranch are conditionally decreed and are subject to a finding of reasonable diligence from the Colorado water court every six years. To arrive at a finding of reasonable diligence, the water court must determine that we continue to diligently pursue the development of said water rights. If the water court is unable to make such a finding, we could lose the water right under review. During each of fiscal 2012 and 2018, the Lowry Ranch conditional decrees were granted review by the water court, which determined that we and the Rangeview District met the diligence criteria. The water court entered a finding of reasonable diligence on the Lowry Ranch surface water decrees in January 2019. Our next review for reasonable diligence on the Lowry Ranch surface water decrees will be in January 2025. We believe we will be successful in maintaining our decrees as we continue to develop these rights. If the water court does not make a determination of reasonable diligence, the value of our interests in the Rangeview Water Supply would be materially adversely impacted.

Our operations are affected by local politics and governmental procedures that are beyond our control. We operate in a highly political environment. We market our water rights to municipalities and other governmental entities run by elected or politically appointed officials. Our principal competitors are municipalities and other water districts. Various constituencies, including our competitors, developers, environmental groups, conservation groups, and agricultural interests, have competing agendas with respect to the development of water rights in Colorado, which means that decisions affecting our business are based on many factors other than economic and business considerations. Additional risks associated with dealing with governmental entities include turnover of elected and appointed officials, changes in policies from election to election, and a lack of institutional history in these entities concerning their prior courses of dealing with the Company. We spend significant time and resources educating elected officials, local authorities and others regarding our water rights and the benefits of contracting with us. Political concerns and governmental procedures and policies may hinder or delay our ability to enter into service agreements or develop our water rights or infrastructure to deliver our water. While we have worked to reduce the political risks in our business through our participation as the service provider for the Rangeview District

in regional cooperative resource programs, such as the SMWSA and the WISE partnership with Denver Water and Aurora Water, as well as education and communication efforts and community involvement, our efforts may be unsuccessful.

The number of connections we can serve are affected by local governmental policies that are beyond our control. We market our water rights through service agreements to developers, municipalities and other governmental entities. We believe that our water rights can serve approximately 60,000 single family connections based on standards applied to water providers in Arapahoe, Douglas, and Adams Counties. These standards are policy driven, based on assumed life and reliability of water supplies and may become more restrictive at the discretion of the governmental entity. If these standards become more restrictive, our water supplies may not serve the number of connections that we currently estimate we can serve.

3. General Risks

We are dependent on the services of a key employee. Our success largely depends on the continuing services of our President and Chief Executive Officer, Mark W. Harding. We believe Mr. Harding possesses valuable knowledge, experience and leadership abilities that would be difficult in the short term to replace. Mr. Harding also serves on the boards of the Rangeview District, the Sky Ranch Districts, and the Sky Ranch CAB. The loss of Mr. Harding as a key employee and as a director of these boards would cause a significant interruption of our operations.

Our stock price has been volatile in the past and may decline in the future. Our common stock has experienced significant price and volume fluctuations in the past and may experience significant fluctuations in the future depending upon several factors, some of which are beyond our control. Factors that could affect our stock price and trading volume include, among others, the perceived prospects of our business; differences between anticipated and actual operating results; changes in analysts' recommendations or projections; the commencement and/or results of litigation and other legal proceedings; and future sales of our common stock by us or by significant shareholders, officers and directors. In addition, stock markets in general have experienced price and volume volatility from time to time, which may adversely affect the market price of our common stock for reasons unrelated to our performance.

Unauthorized access to confidential information and data on our information technology systems and security and data breaches could materially adversely affect our business, financial condition, and operating results. We rely on computer and information technology systems to conduct our business and communicate with our suppliers and other third parties. Our systems require continued and unimpeded access to secure network connections. We have physical, technical and procedural safeguards in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. Despite these safeguards and our other security processes and protections, we cannot be assured that all of our systems and processes are free from vulnerability to security breaches. Cyberattacks are evolving and becoming increasingly sophisticated. Cyberattacks may take various forms, including through hacking, ransomware attacks, malware, viruses and phishing scams.

A significant data security breach, including misappropriation of confidential information, could cause us to incur significant costs, which may include potential costs of investigations, legal, forensic and consulting fees, costs and diversion of management attention required for investigation, remediation and litigation, substantial repair or replacement costs. We could also experience data losses that would impair our ability to manage our business operations, including accounting and project costs, manage our water and wastewater systems or process transactions and have a negative impact on our reputation and loss of confidence of our customers, suppliers and others, any of which could have a material adverse impact on our business, financial condition, operating results and reputation.

Failure to maintain effective internal controls over financial reporting could result in material misstatements in our financial statements and affect our ability to meet our reporting requirements. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As disclosed in Item 9A, during fiscal 2021, we concluded that a material weakness existed in our internal controls resulting from ineffective procedures related to the preparation and review of spreadsheets, which compromised the integrity of the spreadsheets used to support and record transactions related to tracking the public improvement reimbursable amounts and related interest income. To address this material weakness, management devoted significant effort and resources to the remediation and continues its efforts to improve its internal control over financial reporting by implementing additional steps in the review process of various complex schedules that support accounting entries on a monthly and quarterly basis or moving these manual tracking and reconciliation processes to a more automated software system.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Internal controls over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our operating results could be misreported. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain effective internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on our share price.

Conflicts, terrorist attacks, public health crises, including the occurrence of a contagious disease or illness, such as the COVID-19 coronavirus and general instability could adversely affect our business. We are vulnerable to the effects of conflicts, terrorist attacks and public health crises. As was the case with COVID-19, such effects have precipitated economic instability and turmoil in financial markets. The uncertainty and economic disruption resulting from hostilities, acts of terrorism or public health crises may impact our operations or those of our suppliers or customers. Accordingly, any conflict, terrorist attack or public health crisis that impacts us or any of our suppliers or customers, could have a material adverse effect on our business, results of operations and financial condition.

Item 1B – Unresolved Staff Comments

None.

Item 1C. Cybersecurity

We have established processes for assessing, identifying and managing cybersecurity risks, which are built into our information technology function and are designed to safeguard our information assets and operations from internal and external cyber threats, including protecting employee information from unauthorized access to or attacks on our networks and systems. These processes include physical, procedural and technical safeguards, response plans, regular tests on our systems, incident simulations and routine reviews of our policies and procedures to identify risks and enhance our practices. We also employ processes to identify material risks from cybersecurity threats associated with our use of third-party service providers.

We have engaged external parties, including risk management consultants and computer security firms, to enhance our cybersecurity oversight. In an effort to deter and detect cyber threats, we periodically provide training programs to our employees on issues related to privacy and data protection, cybersecurity risks, and the importance of reporting all incidents immediately. Topics include identifying phishing, password protection, securing confidential data, and mobile security. In addition, we use technology-based tools to mitigate cybersecurity risks and to bolster our employee-based cybersecurity programs. We also perform annual vulnerability assessments, conducted by independent, third-party cybersecurity firms.

Additionally, as part of our overall risk mitigation strategy, the Company obtains certain insurance policies. However, such insurance may not be sufficient in type or amount to cover us fully against claims related to security breaches, cyber-attacks and other related breaches.

The Audit Committee of our Board of Directors provides direct cybersecurity risk oversight. Our management provides timely disclosure and related updates to the Audit Committee regarding potential cybersecurity threats, incidents and general risks.

Our management periodically evaluates information provided by its consultants on evolving cybersecurity risks and, based on its assessment of the processes the Company has put in place, does not believe there are currently any known risks from cybersecurity threats that are reasonably likely to materially affect us or our business strategy, results of operations, or financial condition. Further, we have not had any cybersecurity incidents in 2024, and thru the date of filing of this Form 10-K.

Item 2 – Properties

Water Related Assets

In addition to the water rights and adjudicated reservoir sites that are described in *Item 1 – Our Water and Land Assets*, we own or have exclusive rights to use, through the Rangeview District a 1.0 million-gallon and two 500,000-gallon treated water storage tanks, three storage reservoirs that can store 1.7 million barrels of water (71.4 million gallons), seven deep water wells, three alluvial wells, three pump stations, 46 miles of water transmission and distribution lines, and more than 11 miles of wastewater collection pipelines, water treatment and wastewater treatment facilities in Arapahoe County and Elbert County, Colorado. In conjunction with Wild Pointe, and the Elbert 86 District, we have exclusive rights to use, operate and maintain two water tanks with a combined capacity of 438,000 gallons, two deep water wells, a pump station, and over 11 miles of transmission lines serving customers at Wild Pointe in Elbert County. These assets are used to provide service to our customers.

Additionally, we have five deep water wells located in Weld County referred to as our Lost Creek Water. Subject to water court approval, our plans are to consolidate our Lost Creek Water with our Rangeview Water Supply to provide service to the Rangeview District's customers both on and off Lowry Ranch.

Land and Mineral Interests

We own approximately 588 acres of land remaining at our Sky Ranch Master Planned Community as well as approximately 634 net mineral acres at Sky Ranch. We own 40 acres of land that comprise the current boundaries of the Rangeview District (together with all the mineral rights). We own 700 acres of land in the Arkansas River Valley, and we hold 13,900 acres of mineral interests in the Arkansas River Valley in Southeast Colorado in Otero, Bent and Prowers Counties. We also own 261 acres in Weld County together with certain water shares in the Henrylyn Irrigation District and groundwater rights in the Lost Creek Designated Basin.

Item 3 – Legal Proceedings

None.

Item 4 – Mine Safety Disclosures

Not Applicable

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on The NASDAQ Stock Market under the symbol "PCYO."

Holders

On November 11, 2024, there were 843 holders of record of our common stock.

Dividends

We have never paid any dividends on our common stock and expect for the foreseeable future to retain all of our capital and earnings from operations, if any, for use in expanding and developing our water and land development businesses. Any future decision as to the payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, financial position, capital requirements, plans for expansion and such other factors as our board of directors deems relevant. The terms of our Series B Preferred Stock prohibit payment of dividends on common stock unless all dividends accrued on the Series B Preferred Stock have been paid and require dividends to be paid on the Series B Preferred Stock if proceeds from the sale of Export Water exceed \$36,026,232. No dividends

have been accrued to date as this threshold has not been met. For further discussion, see Note 9 to the accompanying consolidated financial statements.

Issuer Purchases of Equity Securities

On November 2, 2022, our Board of Directors approved a stock repurchase program. The program is open-ended and authorizes repurchases of up to an aggregate of 200,000 shares of common stock in the open market. As of August 31, 2024, 59,926 shares had been repurchased under the repurchase program. The following table presents the number and average price of shares purchased in each month of fiscal 2024 and during the first quarter of fiscal 2025 as of November 11, 2024:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchase as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 2023	15,000	\$ 10.06	15,000	185,000
October 2023	5,000	9.49	5,000	180,000
January 2024	2,140	9.95	2,140	177,860
February 2024	7,860	9.93	7,860	170,000
March 2024	7,500	9.59	7,500	162,500
April 2024	2,500	9.40	2,500	160,000
May 2024	5,000	9.40	5,000	155,000
June 2024	11,880	9.16	11,880	143,120
August 2024	3,046	9.69	3,046	140,074
October 2024	10,000	10.73	10,000	130,074
Total	69,926	\$ 9.74	69,926	130,074

Item 6 – Selected Financial Data

Not Applicable

Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors, as described in “Risk Factors” and elsewhere in this Annual Report on Form 10-K, that could cause our actual growth, results of operations, performance, financial position and business prospects and opportunities for this fiscal year and the periods that follow to differ materially from those expressed in, or implied by, those forward-looking statements. Readers are cautioned that forward-looking statements contained in this Annual Report on Form 10-K should be read in conjunction with our disclosure under the heading “FORWARD-LOOKING STATEMENTS” on page 1.

The following Management’s Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and our financial condition and should be read in conjunction with the accompanying consolidated financial statements and the notes thereto included in *Part II, Item 8* of this Annual Report on Form 10-K.

Executive Summary

We saw an increase in the demand for new homes which increased our land development segment revenue during fiscal 2024. We also saw an increase in our water/wastewater sales, primarily from an increase in selling water to oil and gas operators. Our single-family rental business experienced an increase in revenue as well, due to increasing the number of rental homes in fiscal 2024. Due to the demand of affordable housing in our market, we accelerated our land development activity in fiscal 2024 in our Sky Ranch Master Planned Community. Phase 1 is complete, Phase 2A is approximately 99% complete, Phase 2B is approximately 92% complete and Phase 2C is approximately 27% complete. We continue to work on projects to expand our water assets by completing two new wells on the Lowry Ranch during fiscal 2024. Our notable financial highlights from fiscal 2024 include the following:

- Total revenue was \$28.7 million, up from \$14.6 million in 2023 (a 96% increase), primarily driven by an increase in lot sales at Sky Ranch and an increase in water sales to oil and gas operators for use in their drilling operations;
 - Revenue from commercial water sales, which includes selling water to oil and gas operators, was \$6.1 million in 2024 compared to \$3.1 million in 2023;
 - Recorded lot sales for 2024 were \$16.0 million, compared to \$6.8 million in 2023, which is due to the development work in Phases 2B and 2C;
- Pre-tax income was \$15.6 million in 2024, which is up from \$6.2 million in 2023 (a 152% increase);
- In 2024 we posted \$0.48 of earnings per fully diluted common share, which is up from \$0.19 in 2023 (a 153% increase);
- Total assets continue to increase to \$147.4 million at August 31, 2024 from \$133.2 million at August 31, 2023; and
- Total equity increased to \$129.7 million at August 31, 2024 from \$118.2 million at August 31, 2023.

Recent Developments

The housing market stabilized in fiscal 2024 as the Federal Reserve shifted from an aggressive monetary policy in 2023 to a balance policy in 2024 with interest rates remaining relatively consistent throughout 2024. However, with the rising interest rates in 2022 and 2023, the 30-year fixed mortgage rates are still at their highest level in over 15 years. Homebuilders’ strategic use of interest rate buydowns as incentives has played a crucial role in driving sales during higher levels of interest rates. These incentives, coupled with the anticipation of lower interest rates in 2025 due to inflation rates moving toward the Federal Reserve’s targeted rate, have fostered a more optimistic outlook among homebuilders.

We believe several long-term land development and housing market fundamental factors remain positive, including favorable demographics, a lot and housing supply-demand imbalance resulting from a decade-plus underproduction of new homes in relation to population growth, and low resale home inventory. While we remain confident in the long-term growth prospects for the industry given these factors, the current demand for new homes is subject to continued uncertainty due to many factors. The combination of higher mortgage interest rates since early 2022, several years of rising housing prices, elevated inflation, and various other macroeconomic and geopolitical concerns, has been moderating housing demand. Although interest and inflation rates have been stabilizing, we expect this moderate demand to continue into 2025. Given current conditions, we plan to continue to monitor market dynamics and surrounding community performance and adjust the timing of additional construction expenditures at Sky Ranch as necessary. We believe our reasonably priced (entry level) lots and the low inventory of entry level housing in the Denver market will help Sky Ranch navigate the changing market better than other surrounding and significantly higher priced communities.

Our future performance and the strategies we implement (and adjust or refine as necessary or appropriate) will depend significantly on prevailing economics, homebuilding industry, capital, credit and financial market conditions and on a fairly stable and constructive political and regulatory environment (particularly regarding housing and mortgage loan financing policies). The Federal Reserve's aggressive raising of the federal funds interest rate and other measures during 2022 and 2023 to moderate persistent U.S. inflation, and the uncertainty in future Federal Reserve monetary policy, are expected to be an ongoing headwind for the housing market in 2025 and beyond, as they have elevated mortgage loan interest rates and created macroeconomic uncertainty and volatility across financial markets. Prolonged supply chain disruptions and other production-related challenges could extend or delay our construction cycle times and intensify construction-related cost pressures beyond our experience in fiscal 2024. In addition, consumer demand for our homes, and our ability to grow our scale, revenue and returns in fiscal 2025 could be materially and negatively affected by the above-described monetary policy impacts or other factors that curtail mortgage loan availability, employment or income growth or consumer confidence in the U.S. or in the Colorado markets. The potential extent and effect of these factors on our business is highly uncertain, unpredictable and outside our control, and our past performance, including in fiscal 2024, should not be considered indicative of our future results.

Results of Operations

The results of our operations for the fiscal years ended August 31, 2024 and 2023 were as follows:

<i>(In thousands, except for water deliveries and taps sold)</i>	Year Ended		\$ Change	% Change
	August 31, 2024	August 31, 2023		
Water and wastewater resource revenue	\$ 11,561	\$ 7,323	\$ 4,238	58 %
Land development revenue				
Lot sales	15,998	6,815	9,183	135 %
Project management fees	707	283	424	150 %
Single-family rental	481	165	316	192 %
Total revenue	28,747	14,586	14,161	97 %
Water and wastewater resource cost of revenue	5,281	4,581	700	15 %
Land development cost of revenue	3,519	1,892	1,627	86 %
Single-family rental cost of revenue	188	73	115	158 %
Total cost of revenue	8,988	6,546	2,442	37 %
General and administrative expense and depreciation	7,517	5,968	1,549	26 %
Operating income	12,242	2,072	10,170	491 %
Other income, net	3,390	4,148	(758)	(18)%
Income tax expense	(4,019)	(1,521)	2,498	164 %
Net income	\$ 11,613	\$ 4,699	\$ 6,914	147 %
Basic EPS	\$ 0.48	\$ 0.20	\$ 0.28	140 %
Diluted EPS	\$ 0.48	\$ 0.19	\$ 0.29	153 %
Water delivered (acre-feet)	1,818	964	854	89 %
Water taps sold	73	104	(31)	(30)%
Wastewater taps sold	69	90	(21)	(23)%

Fiscal 2024 vs. Fiscal 2023

Revenue – Total revenue increased in 2024 as compared to 2023, primarily due to an increase in lot sales at Sky Ranch. With increased demand for affordable housing, we accelerated our development activities with three ongoing phases in our Sky Ranch Master Planned Community. Additionally, commercial water sales, mainly to oil and gas operators for use in their drilling operations, increased to \$6.1 million in 2024 from \$3.1 million in 2023. Water revenue also increased due to an increase in tap revenue to \$3.4 million in 2024 from \$3.0 million in 2023. Project management revenue at Sky Ranch increased to \$0.7 million in 2024 from \$0.3 million in 2023. As Sky Ranch continues to grow, we expect lot sales to generate significant revenue in the future, and increasing water and wastewater usage and taps purchased as we continue to add customers to our water resource development segment.

Cost of revenue – Total costs of revenue increased in 2024 as compared to 2023, primarily due to increased construction costs in the development of Sky Ranch as construction accelerated in 2024 with three active phases.

General and administrative expense – General and administrative expense increased in 2024 as compared to 2023, primarily due to the receipt of three quarters of qualified Employee Retention Credits from the Internal Revenue Service in 2023 and an overall increase in operations in fiscal 2024.

Other income, net – Other income, net decreased in 2024 as compared to 2023, primarily due to the receipt of several one-time payments from oil and gas operators primarily for surface use and damage payment agreements in fiscal 2023. Additionally, in fiscal 2024 we recognized \$0.4 million of interest expense, compared to \$0.2 million in fiscal 2023, related to notes payable we entered into with our primary lender for the financing of the rental homes and the Lost Creek Water purchase, which are described in greater detail in Notes 4 and 8 to the accompanying consolidated financial statements.

Income tax expense – Income tax expense increased in 2024 as compared to 2023, due to higher pre-tax income primarily from the increase of lots sales in Sky Ranch and increase in commercial water sales, mainly to oil and gas operators, in fiscal 2024. Our effective tax rate remained relatively consistent year over year.

Water delivered – Water deliveries increased in 2024 as compared to 2023, primarily due to increased sales to oil and gas operators, as well as new Sky Ranch customers. Oil and gas operations are highly variable and dependent on oil prices, demand for gas, and timing of other leases in our service areas; therefore, we cannot provide any assurances that we will continue to realize this level of sales to oil and gas customers in the future. As Sky Ranch continues to develop, we anticipate continued growth in our residential water and wastewater service revenue.

Water and wastewater tap sales – Water and wastewater tap sales increased in 2024 as compared to 2023 primarily due to the type of taps (commercial vs. residential) sold during each year and a price increase of water and wastewater taps in 2024. Tap sales are driven by the issuance of building permits and the timing of these are not contractually established with the home builders. During fiscal 2024, we sold 16 taps in Phase 2A and 53 taps in Phase 2B, with an additional 17 taps allocated to our single-family rental segment. We expect to substantially complete the next 141 lots in Phase 2B in fiscal 2025 and expect to realize additional tap sales in fiscal 2025 relating to the delivery of the Phase 2C lots.

Lots delivered – The number of lots delivered (which refers to when title passed on a lot to the homebuilder) increased in 2024 compared to 2023 due to the remaining 43 finished lots in Phase 2B being delivered to a builder by the end of fiscal 2024 resulting in \$4.5 million of revenue. Additionally, we recognized certain milestone from our Lot Delivery Agreements from home builders in 2024 which accounted for \$1.2 million in lot sales revenue for Phase 2A, \$7.7 million in lot sales revenue for Phase 2B and \$2.7 million in lot sales revenue for Phase 2C. We expect to be substantially complete with the delivery of all 228 lots in Phase 2C lots during fiscal 2025. Despite lots being transferred to the homebuilders, we still have minor construction activities to complete Phases 2A and 2B and to turn over the completed infrastructure to the applicable governmental agency for maintenance.

Water and Wastewater Resource Development Results of Operations

(In thousands, except for water deliveries)	Year Ended		\$ Change	% Change
	August 31, 2024	August 31, 2023		
Metered water usage from:				
Municipal water usage	\$ 788	\$ 504	\$ 284	56 %
Commercial water usage	6,095	3,059	3,036	99 %
Wastewater treatment fees	343	302	41	14 %
Water and wastewater tap fees	3,384	2,991	393	13 %
Other revenue	951	467	484	104 %
Total segment revenue	11,561	7,323	4,238	58 %
Water service costs	2,204	1,757	447	25 %
Wastewater service costs	691	675	16	2 %
Depreciation	1,504	1,658	(154)	(9)%
Other	882	491	391	80 %
Total expenses	5,281	4,581	700	15 %
Segment operating income	\$ 6,280	\$ 2,742	\$ 3,538	129 %
Water deliveries (acre-feet)				
On Site	3	9	(6)	(67)%
Commercial sales - export water and other	4	50	(46)	(92)%
Sky Ranch	306	193	113	59 %
Wild Pointe	97	96	1	1 %
O&G operations	1,408	616	792	129 %
Total water deliveries	1,818	964	854	89 %

Municipal water usage – Municipal water usage increased in 2024 compared to 2023, primarily due to new Sky Ranch customers in our water and wastewater resource development segment. We anticipate these revenues to continue to increase in the future as more customers are added to our system as Sky Ranch continues to develop.

Commercial water usage – The main component of commercial water usage is from sales to oil and gas operators for use in their drilling process. Commercial water sales increased during fiscal 2024, primarily due to increased demand by our oil and gas customers. Because oil and gas is cyclical in nature as demand and prices fluctuate, we have no way of knowing if water provided to oil and gas operators will increase or decrease in the future.

Wastewater treatment fees – Wastewater treatment fees increased in 2024 compared to 2023, primarily due to new Sky Ranch customers in our water and wastewater resource development segment. We anticipate these revenues to continue to increase in the future as more customers are added to our system as Sky Ranch continues to develop.

Water and wastewater tap fees – Water and wastewater tap sales increased in 2024 compared to 2023, primarily due to the type of taps (commercial vs. residential) sold during each year and a price increase of water and wastewater taps in 2024. Water and wastewater taps are sold to home builders at the time a building permit is issued and are dependent on when the home builder constructs homes and not contractually driven in terms of timing; therefore, timing of tap sales fluctuate with demand for new construction. During 2024, the average price of a Sky Ranch water and wastewater tap was \$38,000 compared to \$30,000 per tap for 2023.

Other revenue – Other revenue increased in 2024 as compared to 2023, primarily due to increased revenue on the grading, erosion, and sediment control (GESC) and fence contracts at Sky Ranch.

Water service costs – Water service costs increased in 2024 as compared to 2023, primarily due to increase costs related to higher oil and gas water deliveries this fiscal year.

Wastewater service costs – Wastewater service costs increased slightly in 2024 as compared to 2023, primarily due to additional costs incurred with the servicing of the Ridgeview facility, which required work to be completed in anticipation of new development in fiscal 2025.

Other costs of revenue – Other costs of revenue increased in 2024 as compared to 2023, primarily due to costs associated with the GESC and fence contracts in Sky Ranch.

Water delivered – Water deliveries increased in 2024 as compared to 2023, primarily due to increased oil and gas operations and by new Sky Ranch customers.

Land Development Results of Operations

<i>(In thousands)</i>	Year Ended		\$ Change	% Change
	August 31, 2024	August 31, 2023		
Lot sales	\$ 15,998	\$ 6,815	\$ 9,183	135 %
Project management revenue	707	283	424	150
Total revenue	16,705	7,098	9,607	135 %
Land development construction and project management costs	3,519	1,892	1,627	86 %
Segment operating income	\$ 13,186	\$ 5,206	\$ 7,980	153 %

Lot sales – Lot sales increased in 2024 as compared to 2023, primarily due to an increase in lot deliveries at Sky Ranch and our accelerated development activities with three ongoing phases in our Sky Ranch Master Planned Community. Phase 2A is substantially completed at approximately 99%. We delivered finished lots in Phase 2B, and Phase 2B is approximately 92% complete. Phase 2C is approximately 27% complete, and we are beginning our development activity in Phase 2D.

Project management revenue – Project management revenue increased in 2024 as compared to 2023, which was primarily due to increased development activities in Phase 2B and Phase 2C. We earn a 5% project management fee on construction costs for managing the completion of public improvements at Sky Ranch.

Land development construction and project management costs – Land development construction costs increased in 2024 as compared to 2023, primarily due to accelerated development activities in Phases 2B and 2C. As Phase 2B winds down, more of our costs are anticipated to be public improvements costs, whereas the beginning of Phase 2C is anticipated to result in us incurring more lot costs. This is due to the timing of the development of the costs incurred in the beginning of the development phase compared to those costs incurred towards the end.

Lots delivered – The number of lots delivered (which refers to when title is passed to the homebuilder) increased in 2024 compared to 2023 due to the delivery of the remaining lots of Phase 2B and the commencement of lots deliveries in Phase 2C been delivered by the end of fiscal 2024. No finished lots were delivered to homebuilders during fiscal 2023. Despite the lots being transferred to the homebuilders, we still have minor construction activities to complete Phase 2A and 2B to turn over the completed infrastructure to the applicable governmental agency that will maintain the infrastructure, and we did receive certain milestone payments for Phase 2B and 2C lots. Because we record lot sales as construction progresses, the timing of revenue and lot deliveries are not necessarily correlated.

General and Administrative Expenses

The table below details significant items and changes included in our General and Administrative Expenses (G&A Expenses) as well as the impact that share-based compensation has on our G&A Expenses for the fiscal years ended August 31, 2024 and 2023.

Summary of G&A Expenses

(in thousands)	Year Ended			
	August 31, 2024	August 31, 2023	\$ Change	% Change
Significant G&A Expense items:				
Salary and salary-related expenses	\$ 3,563	\$ 2,678	\$ 885	33 %
Share-based compensation	436	539	(103)	(19)%
Professional fees	1,090	832	258	31 %
Public entity-related expenses, including director fees	450	449	1	0 %
Corporate insurance	329	299	30	10 %
All other combined	1,053	673	380	56 %
G&A Expenses as reported	<u>\$ 6,921</u>	<u>\$ 5,470</u>	<u>\$ 1,451</u>	<u>27 %</u>

Salary and Salary-Related Expenses – Salary and salary-related expenses net increased in fiscal 2024 compared to fiscal 2023 due to the receipt of three quarters worth of Employee Retention Credits from the Internal Revenue Service in 2023. During fiscal 2024, we increased our staff by one employee. Share-based compensation expense decreased due to options and restricted stock grant forfeitures during fiscal 2024.

Professional Fees – Professional fees consist mainly of IT, telecom, legal, consulting and accounting fees. IT, telecom, accounting and legal fees increased over the prior year as information technology and cyber security have continued to take on an increased focused, and we amended builder contracts to better time lot delivers to a slowing residential housing market.

Public Entity-Related Expenses, including director fees – Costs associated with being a corporation and costs associated with being a publicly traded entity consist primarily of XBRL and EDGAR conversion fees, stock exchange fees, and press releases. These costs fluctuate from year to year but remained relatively consistent from 2023 to 2024. Compensation including stock grants paid to our board was consistent in fiscal 2024 compared to fiscal 2023.

Corporate insurance – Corporate insurance costs increased as our operations continue to expand, which is due to adding additional construction and rental home policies, and overall insurance rate increases.

All other – All other expenses include typical operating expenses related to the maintenance of our office and equipment, business development, travel, property taxes, and funding provided to the Rangeview District and the Sky Ranch Districts. Other expenses increased during fiscal 2024 compared to fiscal 2023. The changes were primarily the result of increased equipment maintenance and the timing of various expenses, which will fluctuate year over year.

Liquidity, Capital Resources and Financial Position

We believe we are well-positioned to navigate the ever-evolving market conditions given our strong financial position. At August 31, 2024, our working capital, defined as current assets less current liabilities, was \$28.5 million, which includes \$22.1 million in cash and cash equivalents. We believe that as of August 31, 2024, and as of the date of the filing of this Annual Report on Form 10-K, we have sufficient working capital to fund our operations for the next 12 months. We have completed Phase 1 and have completed approximately 99% of the work required to deliver Phase 2A at Sky Ranch. Phase 2B is approximately 92% complete, and Phase 2C is approximately 27% complete. We anticipate starting work on Phase 2D during fiscal 2025. We sold 219 lots in Phase 2A at Sky Ranch (retaining 10 lots for ourselves) and have only 1% of the construction-related activities remaining for Phase 2A to be finished. We expect to spend \$0.2 million in the next twelve months completing the construction of Phase 2A (of which we estimate \$0.2 million will be reimbursable by the Sky Ranch CAB). We have sold 194 lots in Phase 2B at Sky Ranch (retaining 17 lots for ourselves) and have approximately 8% of construction-related activities remaining for Phase 2B to be finished. We expect to spend \$1.5 million in the next twelve months on remaining Phase 2B construction activities (of which we estimate \$1.5 million will be reimbursable by the Sky Ranch CAB). We expect to be substantially complete with Phase 2C during our fiscal 2025 and expect to spend \$13.2 million in the next twelve months on

remaining Phase 2C construction activities (of which we estimate \$12.0 million will be reimbursable by the Sky Ranch CAB). We anticipate starting work on Phase 2D during fiscal 2025 and expect to spend \$6.4 million in the next twelve months on remaining Phase 2D construction activities (of which we estimate \$5.4 million will be reimbursable by the Sky Ranch CAB). We anticipate receiving nearly \$18.0 million in milestone payments and approximately \$5.8 million of water and wastewater taps fees from the homebuilders over the same period. We also anticipate receiving reimbursement from Sky Ranch CAB of approximately \$10.1 million pursuant to a refinancing of the 2019 Bonds. We believe we can fund such capital expenditures from cash and cash equivalents on hand, phased payments from our lot sales agreements, and payments from the Sky Ranch CAB for reimbursement of public improvements.

Summary Cash Flows

<i>(In thousands)</i>	Year Ended		\$ Change	% Change
	August 31, 2024	August 31, 2023		
Cash (used) provided by:				
Operating activities	\$ 2,212	\$ (2,339)	\$ 4,551	195 %
Investing activities	(4,729)	(9,241)	4,512	49 %
Financing activities	(612)	2,845	(3,457)	(122)%
Net Change in cash	\$ (3,129)	\$ (8,735)	\$ 5,606	64 %

Changes in Operating Activities – Operating activities include amounts we receive from the sale of wholesale water and wastewater services, costs incurred in the delivery of those services, the sale of lots, the costs incurred in completing and delivering finished lots, rental income from single-family homes and the cost incurred in constructing and maintaining our single-family rental homes, and G&A Expenses.

Cash provided by operations in fiscal 2024 increased due to the timing of cash receipts of trade receivables, payments of payables and accrued liabilities, and federal and state income taxes payable, partially offset by increases to the note receivable from the Sky Ranch CAB for continued construction costs related to public improvements. The Sky Ranch CAB made payments to us totaling \$0.7 million in fiscal 2024 from excess funds from higher fees and property taxes collected by the Sky Ranch CAB. In fiscal 2023, cash used by operations was primarily related to increases to the note receivable from the Sky Ranch CAB for the continued construction costs related to public improvements, partially offset by the timing differences on payments of payables and accrued liabilities, deferred revenue, and federal and state income taxes payable.

Changes in Investing Activities – Investing activities in fiscal 2024 consisted primarily of the investment in our land and water system of \$1.9 million and investments in future development phases of Sky Ranch for \$2.2 million. Investing activities in fiscal 2023 consisted primarily of the investment in our land and water system of \$3.9 million and investments in future development phases of Sky Ranch for \$1.7 million. We capitalize costs associated with obtaining, defending, enhancing, and developing our water rights. We capitalize costs incurred to construct infrastructure required to deliver water and wastewater services to our customers, and we capitalize costs to develop our land assets that are not sold to home builders.

Changes in Financing Activities – Financing activities in 2024 consisted of payments on existing debt facilities as well as cash used to repurchase the Company’s common stock. Financing activities in 2023 consisted of proceeds from debt of \$3.0 million to finance 11 single-family rental homes.

Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Our discussion and analysis of our financial condition and results of operations are based on these consolidated financial statements. The preparation of our consolidated financial statements requires the application of these accounting principles in addition to certain estimates and judgments based on current available information, engineering estimates, historical results, and other assumptions believed to be reasonable. These estimates, assumptions and judgments are affected by our application of accounting policies, which are discussed in Note 2 in the accompanying consolidated financial statements. Estimates are used for, but not limited to, determining the recoverability of notes receivable, measure of progress related to our land development activities, and accrued liabilities. Actual results could differ from these estimates.

Accounting estimates are considered critical if both of the following conditions are met: (1) the nature of the estimates or assumptions is material because of the levels of subjectivity and judgment needed to account for matters that are highly uncertain and susceptible to change and (2) the effect of the estimates and assumptions is material to the financial statements. The following provides a summary of the two critical estimates we identified.

Collectability of the Notes Receivable from the Sky Ranch CAB – The notes receivable from the Sky Ranch CAB are comprised of amounts we incurred and provided to the Sky Ranch CAB for costs related to the construction of public improvements which are reimbursable to us, along with related project management fees and accrued interest associated with those costs. Collectability of the notes is based on the Sky Ranch CAB generating sufficient cash flows to repay us prior to certain contractual dates, which is deemed probable based on a mill levy increase resulting from the remainder of Sky Ranch being in a different taxing district than Phase 1, higher than projected assessed values of completed homes, and additional houses from the start of the next development phase at Sky Ranch. The notes are evaluated for a credit loss at each reporting period based on the factors indicated, and an impairment would be recognized whenever it was determined that a credit loss had occurred. Management applies judgment to assess whether a credit loss has occurred, and factors that are considered include, but are not limited to: significant decreases in the market price of houses which generate tax payments to the Sky Ranch CAB; significant adverse changes in the business climate or legal factors including significant decreases in housing sales or assessments; significant increase in costs and accumulation of costs significantly in excess of the amount originally expected for the construction of the associated public improvements; and current period cash flow or operating losses combined with a history of losses or a forecast of losses. Recoverability of these notes is measured by comparing the carrying value to the future cash flows expected to be generated by the Sky Ranch CAB which can be used to repay us. If the carrying value of the notes exceeds the fair value of the estimated cash flows, an impairment loss would be recorded by writing down the carrying value of the related asset to its estimated fair value, which is determined using discounted future cash flows or other measures of fair value.

Revenue recognition on lot sales under the percentage-of-completion method– We recognize lot revenue over time as construction progresses for most of our lot development contracts. This involves an estimation of the total project costs which are incurred over several months or even years. This requires management to estimate labor and material costs which could change materially over the life of that construction project and have a material impact on the timing of revenue recognition. Under the percentage of completion method, revenue and related costs from lots sold pursuant to lot development contracts requiring milestone payments as construction occurs are recognized over the course of the construction period based on the completion progress of that project phase (i.e. Phase 2A). In relation to each phase or subphase, revenue is determined by calculating the ratio of incurred construction costs, including construction costs related to public improvements subject to reimbursement, to total estimated costs and applying that ratio to the contracted sales amounts. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts. Cost of sales is the cost incurred related to construction of lots. Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized. Changes in estimated costs or losses, if any, are recognized in the period in which they are determined.

Off-Balance Sheet Arrangements

None

Recently Adopted and Issued Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements for recently adopted and issued accounting pronouncements.

Item 7A – Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8 – Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors,
and Audit Committee of
Pure Cycle Corporation
Watkins, Colorado

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Pure Cycle Corporation (the “Company”) as of August 31, 2024 and 2023, the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended August 31, 2024, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of August 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years in the two-year period ended August 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition of Lot Sales

As described in Note 2 to the consolidated financial statements, the Company accounts for lot sales revenue over time as construction progresses, with progress measured based upon costs incurred to date compared to total expected costs for each particular construction phase. Any revenue in excess of amounts entitled to be billed is reflected on the balance sheet as a contract asset, and amounts received in excess of revenue recognized are recorded as deferred revenue. For the year ended August 31, 2024, the Company recognized \$16.0 million of lot sale revenue, over time, using the percentage of completion method.

Auditing lot sales revenue recognized under the percentage of complete method required a high degree of auditor judgment due to the use of significant assumptions developed by the management team, most notably the estimated budgeted cost for any particular phase to be developed and the estimated remaining cost to complete the phase being developed.

Our audit procedures related to the revenue recognition of lot sales included the following procedures:

- Obtained an understanding and evaluated the design effectiveness of the Company’s processes over the development of estimated budgeted and remaining cost to complete the phase being developed.
- Evaluated the reasonableness of management’s estimated budgeted and remaining cost to complete the phase being developed by performing the following:
 - Inspected contracts with customers
 - Tested a sample of actual costs incurred by phase
 - Physically observed the development sites
 - Interviewed the management team to gain an understanding of the budgeting process and project status
 - Performed a lookback analysis by comparing actual costs incurred to budgeted costs on historical, completed phases for similar projects
 - Agreed the number of lots to be sold by builder to respective contracts

Collectability of Related-party Note Receivable – Reimbursable Public Improvements

As described in Note 2 and Note 5 to the consolidated financial statements, the Sky Ranch Community Authority Board (the Sky Ranch CAB) is responsible for building certain public improvements at Sky Ranch, for which the Company provided the funding to the Sky Ranch CAB and which is reimbursable to the Company. The Company has determined the reimbursement of public improvement costs, for which the Company has an enforceable right to payment, are probable of collection. The note receivable from the Sky Ranch CAB reports the balances owed by the Sky Ranch CAB to the Company for public improvements paid for by the Company, project management fees, and interest accrued on the unpaid balances related to the ongoing development of the Sky Ranch master planned community. As of August 31, 2024, the Company’s related-party note receivable was approximately \$41.0 million.

Management’s estimate of collectability and whether the Sky Ranch CAB will have sufficient sources of liquidity to support the payment of the note receivable balance involves a long-term projection of the development of the Sky Ranch master planned community, and the future revenues that will be available for repayment of the note. Auditing this estimate requires complex auditor judgment because of the subjective and long-term nature of the estimation, and the specialized knowledge needed to address the matter.

Our audit procedures related to the collectability of the related party note receivable included the following procedures:

- Obtained an understanding and evaluated the design effectiveness of the Company’s processes over the valuation analysis of the notes receivable.
- Obtained and reviewed a legal analysis of the enforceability of the Company’s right to payment from the Sky Ranch CAB for the reimbursable costs.
- Obtained and reviewed the valuation analysis of notes receivable report of management’s outside vendor and challenged management’s review of the appropriateness of the valuation; including but not limited to, testing all critical inputs, reasonableness of assumptions applied, and valuation models utilized by the outside vendor.
- Utilized internal valuation specialists to assist with testing the reasonableness of the valuation analysis of notes receivable.

/s/ Forvis Mazars, LLP

We have served as the Company’s auditor since 2022.

Denver, Colorado

November 13, 2024

**PURE CYCLE CORPORATION
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except shares)</i>	August 31, 2024	August 31, 2023
ASSETS:	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 22,113	\$ 26,012
Trade accounts receivable, net	1,472	1,092
Land under development	3,647	1,726
Reimbursable public improvements and project management fees	10,100	—
Income taxes receivable	—	551
Prepaid expenses and other assets	530	346
Total current assets	37,862	29,727
Restricted cash	3,245	2,475
Investments in water and water systems, net	60,486	57,798
Construction in progress	3,161	5,457
Single-family rental units	5,059	4,490
Land and mineral rights:		
Held for development	3,683	4,652
Held for investment purposes	451	451
Other assets	1,164	1,359
Notes receivable – related parties, including accrued interest		
Reimbursable public improvements and project management fees	30,864	24,999
Other	1,221	1,451
Operating leases - right of use assets	158	357
Total assets	\$ 147,354	\$ 133,216
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 1,948	\$ 1,960
Accrued liabilities	1,514	1,761
Accrued liabilities – related parties	2,208	1,021
Income taxes payable	1,442	—
Deferred lot sales revenue	2,173	1,661
Deferred water sales revenue	-	69
Debt, current portion	64	31
Total current liabilities	9,349	6,503
Debt, less current portion	6,821	6,885
Deferred tax liability, net	1,395	1,352
Lease obligations - operating leases, less current portion	87	242
Total liabilities	17,652	14,982
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Series B preferred shares: par value \$0.001 per share, 25 million authorized; 432,513 issued and outstanding (liquidation preference of \$432,513)	—	—
Common shares: par value 1/3 of \$.01 per share, 40.0 million authorized; 24,063,894 and 24,078,720 outstanding, respectively	80	80
Additional paid-in capital	175,125	174,689
Accumulated deficit	(45,503)	(56,535)
Total shareholders' equity	129,702	118,234
Total liabilities and shareholders' equity	\$ 147,354	\$ 133,216

See accompanying Notes to Consolidated Financial Statements

PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands, except share information)</i>	Year Ended	
	August 31, 2024	August 31, 2023
Revenues:		
Metered water usage from:		
Municipal customers	\$ 788	\$ 504
Commercial customers	6,095	3,059
Wastewater treatment fees	343	302
Water and wastewater tap fees	3,384	2,991
Lot sales	15,998	6,815
Project management fees	707	283
Single-family rentals	481	165
Special facility projects and other	951	467
Total revenues	28,747	14,586
Cost of revenues:		
Water service operations	2,204	1,757
Wastewater service operations	691	675
Land development construction costs	3,037	1,606
Project management costs	482	286
Single-family rental costs	188	73
Depletion and depreciation	1,504	1,658
Other	882	491
Total cost of revenues	8,988	6,546
General and administrative expenses	6,921	5,470
Depreciation	596	498
Operating income	12,242	2,072
Other income (expense):		
Interest income - related party	1,729	1,481
Interest income - Investments	1,108	1,023
Oil and gas royalty income, net	795	267
Oil and gas lease income, net	69	75
Other, net	128	1,508
Interest expense, net	(439)	(206)
Income from operations before income taxes	15,632	6,220
Income tax expense	(4,019)	(1,521)
Net income	\$ 11,613	\$ 4,699
Earnings per common share - basic and diluted		
Basic	\$ 0.48	\$ 0.20
Diluted	\$ 0.48	\$ 0.19
Weighted average common shares outstanding:		
Basic	24,083,001	24,031,068
Diluted	24,140,946	24,106,067

See accompanying Notes to Consolidated Financial Statements

PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in thousands, except shares)</i>	Year Ended August 31, 2024							
	Preferred Stock		Common Stock		Additional	Accumulated	Total	
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit		
Balance at August 31, 2023	432,513	\$ —	24,078,720	\$ 80	\$ 174,689	\$ (56,535)	\$ 118,234	
Restricted stock grants	—	—	8,000	—	44	—	44	
Stock options exercised	—	—	17,456	—	—	—	—	
Stock granted for services	—	—	19,644	—	195	—	195	
Share-based compensation	—	—	—	—	197	—	197	
Repurchases of common stock	—	—	(59,926)	—	—	(581)	(581)	
Net income	—	—	—	—	—	11,613	11,613	
Balance at August 31, 2024	<u>432,513</u>	<u>\$ —</u>	<u>24,063,894</u>	<u>\$ 80</u>	<u>\$ 175,125</u>	<u>\$ (45,503)</u>	<u>\$ 129,702</u>	

<i>(in thousands, except shares)</i>	Year Ended August 31, 2023							
	Preferred Stock		Common Stock		Additional	Accumulated	Total	
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit		
Balance at August 31, 2022	432,513	\$ —	23,980,645	\$ 80	\$ 174,150	\$ (61,234)	\$ 112,996	
Stock options exercised	—	—	63,877	—	—	—	—	
Restricted stock grants	—	—	16,000	—	111	—	111	
Stock granted for services	—	—	18,198	—	180	—	180	
Share-based compensation	—	—	—	—	248	—	248	
Net income	—	—	—	—	—	4,699	4,699	
Balance at August 31, 2023	<u>432,513</u>	<u>\$ —</u>	<u>24,078,720</u>	<u>\$ 80</u>	<u>\$ 174,689</u>	<u>\$ (56,535)</u>	<u>\$ 118,234</u>	

See accompanying Notes to Consolidated Financial Statements

PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Year Ended	
	August 31, 2024	August 31, 2023
Cash flows from operating activities:		
Net income	\$ 11,613	\$ 4,699
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and depletion	2,100	2,156
Trade accounts receivable	(380)	1,333
Accounts payable and accrued liabilities	973	1,262
Other assets and liabilities	275	874
Share-based compensation expense	436	539
Deferred income taxes	43	277
Prepaid expenses	(184)	121
Amortized discount on U.S. Treasury Bills	—	(256)
Net activity for notes receivable - related party, other	130	(331)
Deferred water sales revenue	(69)	(501)
Land under development	(5,014)	(2,564)
Deferred lot sale revenue	512	(2,614)
Taxes payable / receivable	1,993	(3,081)
Net activity on note receivable - related party, reimbursable public improvements	(10,216)	(4,253)
Net cash provided by (used in) operating activities	<u>2,212</u>	<u>(2,339)</u>
Cash flows from investing activities:		
Maturity of held-to-maturity investments in U.S. Treasury Bills	—	15,256
Purchase of property and equipment	(458)	(394)
Investments in future development phases at Sky Ranch	(2,156)	(1,686)
Construction costs of single-family rentals	(291)	(3,480)
Investments in water and water systems	(1,924)	(3,937)
Payments on note receivable - related party, other	100	-
Purchase of held-to-maturity investments in U.S. Treasury Bills	-	(15,000)
Net cash used in investing activities	<u>(4,729)</u>	<u>(9,241)</u>
Cash flows from financing activities:		
Proceeds from notes payable	—	3,000
Payments on notes payable	(31)	(44)
Repurchases of common stock	(581)	—
Payments to contingent liability holders	—	(111)
Net cash (used in) provided by financing activities	<u>(612)</u>	<u>2,845</u>
Net change in cash, cash equivalents and restricted cash	(3,129)	(8,735)
Cash, cash equivalents and restricted cash – beginning of period	28,487	37,222
Cash, cash equivalents and restricted cash – end of period	<u>\$ 25,358</u>	<u>\$ 28,487</u>
Cash and cash equivalents	\$ 22,113	\$ 26,012
Restricted cash	3,245	2,475
Total cash, cash equivalents and restricted cash	<u>\$ 25,358</u>	<u>\$ 28,487</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	<u>\$ 2,056</u>	<u>\$ 947</u>
Cash paid for interest	<u>\$ 417</u>	<u>\$ 142</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in reimbursable public improvements included in accounts payable and accrued liabilities	<u>\$ 1,232</u>	<u>\$ 727</u>
Change in investments in water and water systems included in accounts payable and accrued liabilities	<u>\$ 131</u>	<u>\$ 808</u>
Issuance of stock for compensation	<u>\$ 211</u>	<u>\$ 111</u>

See accompanying Notes to Consolidated Financial Statements

PURE CYCLE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2024 and 2023

NOTE 1 – ORGANIZATION

Pure Cycle Corporation (Company or Pure Cycle) was incorporated in Delaware in 1976 and reincorporated in Colorado in 2008. Pure Cycle currently operates in two reportable business segments: (i) wholesale water and wastewater services and (ii) land development. Pure Cycle launched its single-family rental business which constructs and leases single-family homes in its Sky Ranch neighborhood. Management believes the single-family rental business will likely become its third operating segment, once material.

Since its inception, Pure Cycle has accumulated valuable water and land interests and has developed an extensive network of wholesale water production, storage, treatment and distribution systems, and wastewater collection and treatment systems which serve domestic, commercial and industrial customers in the Denver metropolitan region. Pure Cycle's land assets are located along the bustling and high-profile I-70 corridor in the Denver metropolitan region. Through its land development segment, Pure Cycle is developing Sky Ranch, a 930-acre master planned community located four miles south of Denver International Airport. Sky Ranch is planned to include a mix of 3,200 single-family and multifamily residential units, including more than 200 single family residential homes owned by the Company for rent, and over two million square feet of commercial, retail, and industrial space.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of Pure Cycle Corporation and its two wholly-owned and controlled subsidiaries, PCY Holdings, LLC and PCYO Home Rentals, LLC. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to account for certain items such as revenue recognition, reimbursable costs and expenses, costs of revenue for lot sales, share-based compensation, deferred tax asset valuation, and the useful lives and recoverability of long-lived assets. Actual results could differ from those estimates.

The Company has determined the reimbursable public improvements, project management fees and interest income related to the Sky Ranch community being developed by Pure Cycle is probable of collectability. As a result of an established and growing tax base resulting from the success of the initial development, increases in housing values in Colorado, added mill levies, and additional unencumbered fees received by the Sky Ranch CAB, Pure Cycle believes repayment of the public improvements, payment of the project management fees, and interest income are deemed probable. Based on this Pure Cycle recognizes these items in the consolidated financial statements as they occur. The timing and amount of potential payments have been estimated based on growth trends utilizing current assessed values and historic growth rates which have been projected to current and contracted lot sales through the contractual obligation period.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. The Company had no cash equivalents as of August 31, 2024 or 2023. At various times during the fiscal years ended August 31, 2024 and 2023, the Company's main operating account exceeded federally insured limits. To date, the Company has never suffered a loss due to such excess balance.

Contract Asset

Contract assets reflect revenue which has been earned but not yet invoiced. Contract assets are transferred to receivables when the Company has the right to bill such amounts and they are invoiced. Contract receivables are recorded at the invoiced amount and do not bear interest. Credit is extended based on the evaluation of a customer's financial condition and collateral is not required. At August 31, 2024 and August 31, 2023, the Company had no contract assets.

Land Under Development

The land under development account primarily includes land and land improvements stated at cost which Pure Cycle is developing and plans to sell. Pure Cycle began developing its Sky Ranch property in 2017. Pure Cycle capitalizes certain legal, engineering, design, permitting, land acquisition, and construction costs related to the development at Sky Ranch that meet the Company's capitalization criteria for improvements to a lot. These costs are capitalized as incurred. The Company uses the specific identification method for purposes of accumulating land development costs and allocates costs to each lot to determine the cost basis for each lot sold. The land under development accounts primarily contains costs directly attributable to lots to be sold, which will not be reimbursed, but will be expensed as land cost of sales as lots are being completed and sold on a lot-by-lot basis. Additionally, land under development may contain accruals related to retention on development contracts which may be eligible for reimbursement once paid.

The Company measures land under development costs as a current asset at the lower of the carrying value or net realizable value. In determining net realizable value, the Company primarily relies upon the most recent comparable sales prices. If recent sales prices are not available, the Company will consider several factors, including, but not limited to, current market conditions, nearby recent sales transactions, and market analysis studies. If the net realizable value is lower than the current carrying value, the land is written down to its net realizable value.

Notes Receivable – Sky Ranch CAB

As noted above and described in greater detail in Note 5, the Sky Ranch CAB is responsible for building certain public improvements at Sky Ranch. Through various funding, the Company is obligated to provide funding to the Sky Ranch CAB for public improvements, which is reimbursable to the Company. The Company has determined the reimbursement of public improvement costs, for which the Company has an enforceable right to payment, are probable of collection. Therefore, the Company recognizes the reimbursable public improvements costs incurred to date at Sky Ranch in the Notes receivable – related party, reimbursable public improvements and project management fees account on the accompanying consolidated balance sheet. The Company performs a quantitative impairment assessment by estimating the fair value of the Notes receivable – related party using the discounted cashflow method.

Concentration of Credit Risk and Fair Value

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and investments. From time to time, the Company places its cash in money market instruments, certificates of deposit and U.S. government treasury obligations. To date, the Company has not experienced significant losses on any of these investments.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of significant input to determine where within the fair value hierarchy the measurement falls. The estimated fair value measurements in Note 2 are based on Level 2 of the fair value hierarchy.

Cash and cash equivalents – The Company's cash and cash equivalents are reported using the values as reported by the financial institution where the funds are held. These securities primarily include balances in the Company's operating and savings accounts. The carrying amount of cash and cash equivalents approximate fair value.

Trade accounts receivable – Trade accounts receivable are reported net of allowances for uncollectible accounts and the carrying values approximate fair value due to the short-term nature of the receivables.

Restricted cash – The Company has entered into eight separate cash-secured performance standby letter of credit agreements with its primary banks to provide assurance the Company will perform on various construction agreements. As of August 31, 2024, the eight

letters of credit totaled \$3.4 million, which are fully secured by cash held in restricted accounts at the banks, which approximates its fair value is cash is held in savings accounts.

Notes receivable – related parties – The carrying amounts of the notes receivable – related parties (with the Rangeview Metropolitan District (Rangeview District) and the Sky Ranch CAB approximate their fair value because the interest rates on the notes currently approximate market rates.

Accounts payable – The carrying amounts of accounts payable approximate fair value due to the relatively short period to maturity for these instruments.

Debt – The carrying amounts of the Company’s debt approximate fair value because the rates are floating rates based on the prime lending rate, which approximates market rates.

Trade Accounts Receivable

The Company records accounts receivable net of expected credit losses. The Company has recorded expected credit losses for uncollectible accounts receivables from continuing operations totaling less than \$0.1 million and \$0.1 million for the periods ended August 31, 2024 and 2023. The expected credit losses for uncollectible accounts was determined based on lifetime expected credit losses using an aging schedule for each pool of trade accounts receivable. Pools are determined based on risk characteristics by the type of customer.

Recoverability of Long-Lived Assets

The Company evaluates its long-lived assets for impairment if the Company determines events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Estimates of future cash flows and timing of events for evaluating long-lived assets for impairment are based upon management’s assumptions and market conditions. If any of its long-lived assets are deemed to be impaired, the amount of impairment to be recognized is the excess of the carrying amount of the assets over its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the years ended August 31, 2024 and 2023, the Company did not identify any indications of impairment loss.

Capitalized Costs of Water and Wastewater Systems and Depreciation and Depletion Charges

Costs to construct water and wastewater systems that meet the Company’s capitalization criteria are capitalized as incurred, including interest, if applicable, and depreciated on a straight-line basis over their estimated useful lives of up to 30 years. The Company capitalizes design and construction costs related to construction activities, and it capitalizes certain legal, engineering and permitting costs relating to the adjudication and improvement of its water assets.

The Company depletes its water assets that are being utilized based on units produced (i.e., acre-feet sold) divided by the total volume of water adjudicated in the water decrees.

Revenue Recognition

The Company disaggregates revenue by major product line as reported on the consolidated statements of income.

The Company currently generates revenues through its two business segments. Revenues are derived through its wholesale water and wastewater business and through the sale of developed land primarily for residential lots, both of which businesses are described below.

Water and Wastewater Resource Development Segment Revenue

Pure Cycle generates revenue through its wholesale water and wastewater business predominantly from the items described below. Because these items are separately delivered and distinct, Pure Cycle accounts for each of the items separately.

Monthly water usage and wastewater treatment fees – Pure Cycle provides water and wastewater services to customers, for which the customers are charged monthly usage fees. Water usage fees are assessed to customers based on actual metered usage each month plus

a base monthly service fee assessed per single-family equivalent (SFE) unit served. One SFE is a customer, whether residential, commercial or industrial, that imparts a demand on the Company's water or wastewater systems similar to the demand of a family of four persons living in a single-family house on a standard-sized lot. Water usage pricing is based on a tiered pricing structure. Pure Cycle recognizes wholesale water usage revenue at a point in time upon delivering water to its governmental customers' end-use customers. Revenue recognized by Pure Cycle from the sale of "Export Water" and other portions of its "Rangeview Water Supply" off the "Lowry Ranch" are reported net of royalties to the State of Colorado Board of Land Commissioners (Land Board). Pure Cycle is the distributor of the Export Water and sets pricing for the sale of Export Water. Revenue recognized by Pure Cycle from the sale of water on the Lowry Ranch are shown net of royalties paid to the Land Board and amounts retained by the Rangeview District. For water sales on the Lowry Ranch, the Rangeview District is directly selling the water and deemed the primary distributor of the water. The Rangeview District sets the price for the water sales on the Lowry Ranch. See further description of "Export Water," the "Lowry Ranch," and the "Rangeview Water Supply" in Note 4 under "Rangeview Water Supply and Water System."

Pure Cycle also sells raw water for industrial uses, mainly to oil and gas companies for use in the drilling processes (referred to as "O&G operations"). O&G operations revenue is recognized at a point in time upon delivering water to its governmental customers' end-use customers, unless other special arrangements are made.

During the years ended August 31, 2024 and 2023, the Company delivered 1,818 acre-feet and 964 acre-feet of water to customers. Of this, 77% and 64% was sold to O&G operators.

Pure Cycle recognizes wastewater treatment revenue monthly based on a flat monthly fee and actual usage charges. The monthly wastewater treatment fees are shown net of amounts retained by the Rangeview District. Costs of delivering water and providing wastewater service to customers are recognized as incurred.

Water and wastewater tap fees and construction fees/special facility funding – Pure Cycle has various water and wastewater service agreements, components of which may require the payment of tap fees. A tap constitutes a right to connect to the wholesale water and wastewater systems through a service line to a residential or commercial building or property, and once granted, the customer may make a physical tap into the wholesale line(s) to connect its property to Pure Cycle's water and/or wastewater systems. The right stays with the property upon sale or transfer. Pure Cycle has no obligation to physically connect the property to the lines. Once connected to the water and/or wastewater systems, the customer has live service and the ability to receive metered water deliveries from Pure Cycle's system and send wastewater into Pure Cycle's system. Thus, once the connection right is granted, the customer has full control of the connection right as it can obtain all the benefits from this right. Therefore, management has determined that tap fees are separate and distinct performance obligations that are recognized at a point in time.

Pure Cycle recognizes water and wastewater tap fee revenue when Pure Cycle grants the right for the customer to connect to the water or wastewater service line to obtain service, and the customer pays the tap fee. During the years ended August 31, 2024 and 2023, Pure Cycle recognized \$2.9 million and \$2.5 million of water tap fee revenue. The water tap fees recognized are based on the amounts billed by the Rangeview District to customers, after deduction of royalties due to the Land Board for water taps, if applicable.

During the years ended August 31, 2024 and 2023, the Company recognized \$0.5 million and \$0.5 million of wastewater tap fee revenue.

Pure Cycle recognizes construction fees, including fees received to construct "special facilities," over time as the construction is completed because the customer is generally able to use the property improvement to enhance the value of other assets during the construction period. Special facilities are facilities that enable water to be delivered to a single customer and are not otherwise classified as a typical wholesale facility or retail facility. Temporary infrastructure required prior to construction of permanent water and wastewater systems or transmission pipelines to transfer water from one location to another are examples of special facilities. Management has determined that special facilities are separate and distinct performance obligations because these projects are contracted to construct a specific water and wastewater system or transmission pipeline and typically do not include multiple performance obligations in a contract with a customer. For the years ended August 31, 2024 and 2023, Pure Cycle recognized \$ 0.1 million and less than \$0.1 million of special facilities revenue.

As of August 31, 2024 and 2023, Pure Cycle had no contract liabilities related to tap and construction fee/special facility funding revenue.

Consulting fees – Pure Cycle can receive, typically monthly, fees from customers including municipalities and area water providers, for contract operations services. Consulting fees are recognized monthly based on a flat monthly fee plus charges for additional work performed. For the years ended August 31, 2024 and 2023, Pure Cycle recognized less than \$0.1 million and less than \$0.1 million of consulting fees. These fees are classified in Special facility projects and other income.

Land Development Segment Revenue

Pure Cycle generates revenue through its land development business predominantly from the sources described below. Because these items are separately delivered and distinct, Pure Cycle accounts for each of the items separately.

Sale of finished lots – Pure Cycle acquired approximately 930 acres of land zoned as a Master Planned Community known as Sky Ranch. Pure Cycle has entered into multiple purchase and sale agreements with home builders pursuant to which Pure Cycle agreed to sell, and each builder agreed to purchase, finished residential lots at Sky Ranch. Per our agreements, Pure Cycle is obligated to deliver finished lots for which we develop through agreements with the Sky Ranch CAB. Pure Cycle began Phase 1 in March 2018 and broke ground on Phase 2 in February 2021. As of August 31, 2024, Phase 1 is complete and includes 509 lots, of which 505 were sold to three homebuilders and the remainder were retained by Pure Cycle for use in its single-family rental business. Phase 2 is planned to have 886 lots (792 allocated for sale to homebuilders and 94 retained for use in the single-family rental business) and is being developed in four subphases (referred to as Phase 2A, 2B, 2C and 2D). Phase 2A broke ground in February 2021, includes a total of 229 lots, of which 219 lots were sold to home builders and 10 were retained for use in the single-family rental business. Phase 2B broke ground in March 2023, includes a total of 211 lots, of which 194 lots were sold to home builders and 17 lots were retained for use in the single-family rental business. Phase 2C broke ground in March 2024, includes a total of 228 lots, of which 188 lots were sold to home builders, and 40 lots were retained for use in the single-family rental business.

The timing of cash flows from Phase 2, consistent with Phase 1, includes certain milestone deliveries, including, but not limited to, completion of governmental approvals for final plats, installation of wet utility public improvements, and final completion of lot deliveries.

Pure Cycle sells lots at Sky Ranch pursuant to distinct agreements with each builder. These agreements require the same level of construction for all lots and builders, the primary difference in the agreements is the timing of payments and timing of the transfer of ownership of the lots. Pure Cycle's lot sales agreements require payments under one of the two following structures:

- (1) Upon the substantial completion of the finished lot, whereby the builder pays for a ready-to-build finished lot and the sales price is paid in a lump-sum upon substantial completion of the finished lot (typically subject to completion of related public improvements by Pure Cycle, through our development agreement with the Sky Ranch CAB) that is permit ready. Depending on timing of delivery of the finished lot to the builder, Pure Cycle may still have unfulfilled contract performance obligations related to the timing of completion of public improvements and other amenities. If these unfulfilled obligations, after the finished lots are delivered, are deemed other than insignificant, the company follows format 2 and recognizes revenue over time based on the estimated progress using overall costs incurred to date compared to total estimated costs from the period of time the lot is delivered until the remaining performance obligations are substantially completed.
- (2) As certain construction milestones are achieved, which include payments due as follows pursuant to a lot development agreement with the builder: (i) payment upon the delivery of platted lots (which requires Pure Cycle to deliver deeded title to individual lots), (ii) a second payment upon the completion of certain infrastructure milestones, and (iii) final payment upon the delivery of the finished lot. Typically these lots are also subject to completion of related public improvements by the Company, through our development agreement with the Sky Ranch CAB, after all three payments have been received.

Under the first payment structure, the builder (i.e., the customer) takes control/ownership of the lot at the time payment is received and the lot is substantially complete, at which point the Company recognizes revenue. Under the second payment structure, the builder takes control/ownership at the first closing, or delivery of the platted lots. Under both payment scenarios Pure Cycle has subsequent improvements to make to the lot to either improve the builder's lot and/or complete its performance obligations of managing the construction of public improvements required to complete the neighborhood, which includes items such as fencing, final utility installation, and landscaping. Because Pure Cycle has obligations remaining under the contracts, Pure Cycle accounts for lot sales revenue over time as construction progresses, with progress measured based upon costs incurred to date compared to total expected costs for a particular construction phase (i.e. for Phases 2A, 2B and 2C). Any revenue in excess of amounts entitled to be billed is

reflected on the balance sheet as a contract asset, and amounts received in excess of revenue recognized are recorded as deferred revenue. Pure Cycle does not have any material significant payment terms as all payments are expected to be received within a few months after invoicing. Pure Cycle adopted the practical expedient for financing components and does not need to account for a financing component of these lot sales as the delivery of lot sales is expected to occur within one year.

For the years ended August 31, 2024 and 2023, Pure Cycle recognized \$16.0 million and \$6.8 million of lot sale revenue related to Phases 2A, 2B and 2C at Sky Ranch for recognition of the performance obligations using the percentage-of-completion methods for each builder contract in each phase.

Since development of Sky Ranch began through August 31, 2024, Pure Cycle has received payments totaling \$18.4 million in Phase 2A, \$17.3 million in Phase 2B, and \$3.4 million in Phase 2C. Of the amounts received for Phase 2A, as of August 31, 2024, \$18.3 million has been recognized as revenue as Phase 2A is approximately 99% complete. Of the amounts received for Phase 2B, as of August 31, 2024, \$16.0 million has been recognized as revenue as Phase 2B is approximately 92% complete. Of the amounts received for Phase 2C, as of August 31, 2024, \$2.7 million has been recognized as revenue as Phase 2C is approximately 27% complete. As of August 31, 2024, \$0.1 million of revenue has been deferred related to Phase 2A contracts, \$1.3 million of revenue has been deferred related to Phase 2B contracts, and \$0.7 million of revenue has been deferred related to Phase 2C contracts. Deferred revenue will be recognized over time as the Company completes its performance obligations of managing the completion of the public improvements in Phases 2A, 2B, and 2C, which includes items such as fencing, final utility installation, and landscaping. We anticipate the completion of Phase 2A and substantial completion of Phases 2B and 2C by the end of fiscal 2025.

Reimbursable Costs for Public Improvements – The Sky Ranch CAB is responsible for the construction of certain public improvements at Sky Ranch. Public improvements are items that are not associated with an individual lot or home, but can be used by the public, whether living in Sky Ranch or not. Public improvements include items such as roads, curbs, sidewalks, landscaping, and parks but also includes items such as water distribution systems, sewer collection systems, storm water systems, and drainage improvements. These public improvements are constructed pursuant to design standards specified by local governmental jurisdictions including the Sky Ranch Metropolitan District Nos. 1, 3, 4, 5, 6, 7 and 8 (collectively, the Sky Ranch Districts), the Sky Ranch CAB, Arapahoe County, and the local stormwater authority and, after inspection and acceptance, are turned over to the applicable governmental entity to own, operate and maintain.

Pursuant to agreements between the Company and the Sky Ranch CAB (see Note 15), the Company is obligated to provide advance funding to the Sky Ranch CAB related to the construction of these public improvements pursuant to a note. Because public improvements are utilized by more than just a single home, the costs are typically reimbursed through property tax assessments, fees, and other funding mechanisms like municipal bonds.

Although the Company is developing Sky Ranch in phases, the Sky Ranch CAB collects taxes and fees for the entire community and those funds are available to repay the Company regardless of the location of the public improvement (except for certain regional public improvements). Additional information about the amounts spent on public improvements as well as amounts repaid are further detailed in Note 5.

The Company evaluates the notes receivable - related parties, reimbursable public improvements for indicators of impairment each reporting period by estimating the fair value of the Notes receivable – related party using the discounted cashflow method. The note receivable from the Sky Ranch CAB bears an interest rate of six percent (6%) per annum until paid. To date no impairment has been recorded for the reimbursable amounts on the note receivable.

Project management services – Pursuant to two Service Agreements for Project Management Services (Project Management Agreements) with the Sky Ranch CAB, Pure Cycle acts as the project manager and provides the services required to deliver the Sky Ranch CAB-eligible public improvements (see discussion of reimbursable public improvements above and in Note 5), including but not limited to Sky Ranch CAB compliance; planning design and approvals; project administration; contractor agreements; and construction management and administration. Pure Cycle is responsible for all expenses it incurs in the performance of the Project Management Agreements and is not entitled to any reimbursement or compensation except as set forth in the Project Management Agreements, unless otherwise approved in advance by the Sky Ranch CAB in writing. Pure Cycle receives a project management fee of five percent (5%) of actual qualifying construction costs of Sky Ranch CAB-eligible public improvements. The project management fee is based only on the actual costs of the improvements; thus, items such as fees, permits, review fees, and land acquisition or any other costs that are not directly related to the cost of construction of Sky Ranch CAB-eligible public improvements are not included in the calculation of the

project management fee. Other costs incurred by Pure Cycle that are not directly related to the construction of Sky Ranch CAB-eligible public improvements are included in the land under development account and accounted for in the same manner as construction support activities as described below. Per the Project Management Agreements, no payment is required by the Sky Ranch CAB with respect to project management fees unless and until the Sky Ranch CAB and/or the Sky Ranch Districts have sufficient funds from tax assessment, fees or the issuance of municipal bonds in an amount sufficient to reimburse Pure Cycle for all or a portion of advances provided or expenses incurred for construction of public improvements that qualify as reimbursable expenses. Additional information on the Project Management fees and treatment of the related receivables is included in Note 5.

Construction support activities – Pure Cycle performs certain construction activities at Sky Ranch. The activities performed include construction and maintenance of the grading erosion and sediment control, best management practices and other construction-related services. The Phase 2 activities are invoiced based on an agreement between Pure Cycle and the Sky Ranch CAB. The amounts are invoiced and recognized as special facility projects revenue and is a component in trade accounts receivable, net. For the years ended August 31, 2024 and 2023, the Company recognized \$0.3 million and less than \$0.4 million related to construction support activities at Sky Ranch.

Deferred Revenue

As noted above, the Company recognizes certain lot sales over time as construction activities progress for lots sold pursuant to lot development agreements and not when payment is received. Based on this, the Company will frequently receive milestone payments before revenue can be recognized (i.e. prior to the Company completing cumulative progress which faithfully represents the transfer of goods and services to the customer) which results in the Company recording deferred revenue. The Company recognizes this revenue into income as control of lots are transferred to the homebuilder, generally from the period title to a lot is transferred until all construction activities (including public improvements) for that phase or subphase are completed and turned over to the governmental agency that will maintain the asset. As construction activities progress, which is measured based on the amount of costs incurred compared to total expected costs of the project (i.e. Phase 2A) which management believes is a faithful representation of the transfer of goods and services to the customer.

As of August 31, 2024 and 2023, the Company’s deferred revenue along with the changes in the deferred revenue are as follows:

	Three Months Ended August 31, 2024		
<i>(In thousands)</i>	Water and Wastewater Resource Development	Land Development	Total
Balance at May 31, 2024	\$ 13	\$ 1,548	\$ 1,561
Revenue recognized	(13)	(8,244)	(8,257)
Revenue deferred	-	8,869	8,869
Balance at August 31, 2024	<u>\$ -</u>	<u>\$ 2,173</u>	<u>\$ 2,173</u>
	Three Months Ended August 31, 2023		
	Water and Wastewater Resource Development	Land Development	Total
Balance at May 31, 2023	\$ 13	\$ 3,475	\$ 3,488
Revenue recognized	(19)	(1,984)	(2,003)
Revenue deferred	75	170	245
Balance at August 31, 2023	<u>\$ 69</u>	<u>\$ 1,661</u>	<u>\$ 1,730</u>

Year Ended August 31, 2024

<i>(In thousands)</i>	Water and Wastewater Resource Development	Land Development	Total
Balance at August 31, 2023	\$ 69	\$ 1,661	\$ 1,730
Revenue recognized	(177)	(16,302)	(16,479)
Revenue deferred	108	16,814	16,922
Balance at August 31, 2024	<u>\$ -</u>	<u>\$ 2,173</u>	<u>\$ 2,173</u>

Year Ended August 31, 2023

<i>(In thousands)</i>	Water and Wastewater Resource Development	Land Development	Total
Balance at August 31, 2022	\$ 570	\$ 4,275	\$ 4,845
Revenue recognized	(576)	(7,041)	(7,617)
Revenue deferred	75	4,427	4,502
Balance at August 31, 2023	<u>\$ 69</u>	<u>\$ 1,661</u>	<u>\$ 1,730</u>

When recognized, the amounts reflected as unearned revenue will be recorded in lot sales, metered water usage from oil and gas operations, or Other income oil and gas lease income, net in the consolidated statements of income.

Royalty and Other Obligations

Revenue from the sale of Export Water are shown net of royalties payable to the Land Board. Revenue from the sale of water on the Lowry Ranch are invoiced directly by the Rangeview District, and a percentage of such collections are then paid to the Company by the Rangeview District. Water revenue from such sales are shown net of royalties paid to the Land Board and amounts retained by the Rangeview District.

Oil and Gas Lease Payments

As further described in Note 4 below, on March 10, 2011, the Company entered a Paid-Up Oil and Gas Lease (Sky Ranch O&G Lease) and a Surface Use and Damage Agreement that have been assigned to various other oil and gas companies as a result of acquisitions. Nine wells have been drilled within the Company's mineral interest and placed into service and are producing oil and gas and accruing royalties to the Company. During the years ended August 31, 2024, and 2023, the Company received \$0.8 million and \$0.3 million, in royalties attributable to these wells. The Company classifies income from lease and royalty payments as Other income in the consolidated statements of income as the Company does not consider these arrangements to be an operating business activity. Oil and gas operations, although material in certain years, are deemed a passive activity as the Chief Operating Decision Maker (CODM) does not actively allocate resources to these projects; therefore, this is not classified as a reportable segment.

Share-based Compensation

The Company maintains a stock option plan for the benefit of its employees and non-employee directors. The Company recognizes share-based compensation costs as expenses over the applicable vesting period of the stock award using the straight-line method. The compensation costs to be expensed are measured at the grant date based on the fair value of the award. The Company has adopted the alternative transition method for calculating the tax effects of share-based compensation, which allows for a simplified method of calculating the tax effects of employee share-based compensation. The impact on the income tax provision for the granting and exercise of stock options during each of the years ended August 31, 2024 and 2023, was immaterial.

During the years ended August 31, 2024 and 2023, the Company recognized \$0.4 million and \$0.5 million of share-based compensation expense.

Income Taxes

The Company uses a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, including any potential interest and penalties relating to tax positions taken by the Company. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax positions as a component of income tax expense. At August 31, 2024, the Company did not have any

accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the year ended August 31, 2024. The Company does not have any significant unrecognized tax benefits as of August 31, 2024.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating losses and tax credit carryforwards. The Company measures deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Company files income tax returns with the Internal Revenue Service and the State of Colorado. The tax years that remain subject to examination are fiscal 2019 through fiscal 2024. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of shares outstanding during each period. Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised and all unvested share-based payment awards were vested. Certain outstanding options are excluded from the diluted earnings per share calculation because they are anti-dilutive (i.e., their assumed conversion into common stock would increase rather than decrease earnings per share).

Recently Issued Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its consolidated financial statements and to ensure that there are proper controls in place to ascertain that the Company's consolidated financial statements properly reflect the change. New pronouncements assessed by the Company recently are discussed below:

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. The ASU introduces a new credit loss methodology, Current Expected Credit Losses ("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL framework utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods, which generally require that a loss be incurred before it is recognized.

The Company adopted the guidance on September 1, 2023 on a modified retrospective basis and does not expect a material impact to the Company's consolidated financial statements.

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which requires expanded disclosure of significant segment expenses and other segment items on an annual and interim basis. ASU 2023-07 is effective for the Company for annual periods beginning after September 1, 2024 and interim periods beginning after September 1, 2025. The Company is currently evaluating the impact ASU 2023-07 will have on its consolidated financial statement disclosures.

In December 2023, FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"), which requires expanded disclosure of our income rate reconciliation and income taxes paid. ASU 2023-09 is effective for the Company for annual periods beginning after September 1, 2025. The Company is currently evaluating the impact ASU 2023-09 will have on its consolidated financial statement disclosures.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on our consolidated financial statements and related disclosures.

Reclassifications

The Company has reclassified certain prior year information to conform to the current year presentation.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of significant inputs to determine the level in the fair value hierarchy which is applicable to the fair value measure.

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as The NASDAQ Stock Market. As of August 31, 2024 and August 31, 2023, the Company had no recurring Level 1 assets or liabilities.

Level 2 — Valuations for assets and liabilities obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. As of August 31, 2024 and 2023, the Company had three non-recurring Level 2 liabilities, both of the SFR Notes and the Lost Creek Note (all defined in Note 8), for which the Company has determined the valuation of the liabilities can be obtained from readily available pricing sources via independent providers for market transactions involving similar liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain significant unobservable assumptions and projections in determining the fair value assigned to such assets or liabilities. As of August 31, 2024 and 2023, the Company had one Level 3 asset, the notes receivable – related party, reimbursable public improvements, for which the Company did not record any impairment charges, as the fair value, based on a discounted cash flow analysis, exceeded the carrying value. As of August 31, 2024 and 2023, the Company had one Level 3 liability, the contingent portion of the CAA. The Company has determined that the contingent portion of the CAA does not have a readily determinable fair value and is immaterial (see Note 6).

The Company maintains policies and procedures to value instruments using what management believes to be the best and most relevant data available.

There were no transfers between Level 1, 2 or 3 categories during the years ended August 31, 2024 or 2023.

NOTE 4 – WATER AND LAND ASSETS

Investment in Water and Water Systems

The Company’s water and water systems consist of the following:

<i>(In thousands)</i>	<u>August 31, 2024</u>		<u>August 31, 2023</u>	
	<u>Costs</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Costs</u>	<u>Accumulated Depreciation and Depletion</u>
Rangeview water system	\$ 23,381	\$ (3,579)	\$ 20,020	\$ (2,813)
Rangeview water supply	15,889	(20)	15,084	(18)
Water supply – Other	7,588	(2,307)	7,612	(2,064)
Sky Ranch water rights and other costs	7,764	(1,641)	7,764	(1,487)
Sky Ranch pipeline	5,740	(1,366)	5,740	(1,175)
Lost Creek water supply	7,357	—	7,328	—
Fairgrounds water and water system	2,900	(1,591)	2,900	(1,503)
Wild Pointe service rights	1,632	(1,261)	1,632	(1,222)
Totals	<u>72,251</u>	<u>(11,765)</u>	<u>68,080</u>	<u>(10,282)</u>
Net investments in water and water systems	<u>\$ 60,486</u>		<u>\$ 57,798</u>	

Construction in Progress

The construction in progress account represents costs incurred on various construction projects currently underway that as of the balance sheet date have not been completed and placed into service. The construction in progress account consists primarily of water facilities being constructed which the Company anticipates will be placed in service during the next twelve months. During the year ended August 31, 2024, the Company incurred net disposals and/or capitalization of assets placed in service from construction in process of (1) \$0.1 million of costs related to its construction projects, (2) \$1.8 million of various water infrastructure projects, and (3) \$0.4 million for its single-family rental business. During the year ended August 31, 2023, the Company added (1) \$1.2 million of costs related to its construction projects, (2) \$3.2 million toward various water infrastructure project costs, and (3) \$3.5 million in net costs associated with its single-family rental homes resulting in the capitalization of \$3.6 million of costs.

Single-Family Rental Homes

During the year ended August 31, 2022, the Company contracted for construction of 11 additional rental homes to be used in the rental business. During the year ended August 31, 2023, the Company capitalized nine additional single-family homes, whether detached houses, townhomes or paired homes, which are being utilized in the Company’s single-family rental business. During the year ended August 31, 2024, the Company capitalized the remaining two homes in Phase 2A. The costs of the homes are capitalized and when applicable are depreciated over periods not exceeding thirty-years, which is dependent on the asset type. As of August 31, 2024, all 14 completed homes have been rented, with contracts signed to construct the first 12 single-family rentals in Phase 2B with construction set to begin in fiscal 2025.

The Company has reserved a total of 94 lots in Phase 2 (10 of which are in Phase 2A and completed as of August 31, 2024) of Sky Ranch to build additional rental homes.

Depletion and Depreciation

During the years ended August 31, 2024 and 2023, the Company recorded an immaterial amount of depletion charges, which relates entirely to the Rangeview Water Supply (as defined below).

During the years ended August 31, 2024 and 2023, the Company recorded \$2.1 million and \$2.2 million of depreciation expense, which include \$0.6 million and \$0.5 million of depreciation expense for other equipment not included in the table above.

The following table presents the estimated useful lives by asset class used for calculating depreciation and depletion charges:

Assets Classes	Estimated Useful Lives
Wild Pointe	Units of production depletion
Rangeview water supply	Units of production depletion
Lost Creek water supply	Units of production depletion
Rangeview, Sky Ranch and WISE water systems	30 years
ECCV wells	10 years
Furniture and fixtures	5 years
Trucks and heavy equipment	5 years
Water system general (pumps, valves, etc.)	5 years
Computers	3 years
Water equipment	3 years
Software	1 year

Rangeview Water Supply and Water System

The “Rangeview Water Supply” consists of approximately 27,000 acre-feet and is a combination of tributary surface water and groundwater rights along with certain storage rights associated with the Lowry Ranch, a 26,000-acre property owned by the Land Board located 16 miles southeast of Denver, Colorado. As of August 31, 2023, the Company has invested \$20.0 million in facilities to extend water service to customers located on and off the Lowry Ranch. The recorded costs of the Rangeview Water Supply include payments

to the sellers of the Rangeview Water Supply, design and construction costs and certain direct costs related to improvements to the asset, including legal and engineering fees.

The Company acquired the Rangeview Water Supply in 1996 pursuant to the following agreements:

- 1996 Amended and Restated Lease Agreement between the Land Board and the Rangeview District, which was superseded by the 2014 Amended and Restated Lease Agreement, dated July 10, 2014 (Lease), between the Company, the Land Board, and the Rangeview District;
- The 1996 Service Agreement between the Company and the Rangeview District, which was superseded by the Amended and Restated Service Agreement, dated July 11, 2014, between the Company and the Rangeview District (Lowry Service Agreement), which allows the Company to provide water service to the Rangeview District's customers located on the Lowry Ranch;
- The Agreement for Sale of non-tributary and not non-tributary groundwater between the Company and the Rangeview District (Export Agreement), pursuant to which the Company purchased a portion of the Rangeview Water Supply referred to as the "Export Water" because the Export Agreement allows the Company to export this water from the Lowry Ranch to supply water to nearby communities; and
- The 1997 Wastewater Service Agreement between the Company and Rangeview District (Lowry Wastewater Agreement), which allows the Company to provide wastewater service to the Rangeview District's customers on the Lowry Ranch.
- The ECCV Option Agreement, dated January 30, 2024, among the Company, Rangeview District, and the Land Board (ECCV Option), which allows the Company to add the East Cherry Creek Valley (ECCV) system and 4,000 acre-feet or Arapahoe aquifer groundwater, to the Lease, subject to the payment of additional rent, effective as of July 8, 2032 (the expiration of the ECCV lease).

The Lease, the Lowry Service Agreement, the Export Agreement, and the Lowry Wastewater Agreement, and the ECCV Option are collectively referred to as the Rangeview Water Agreements.

In August 2019, the Company acquired 300 acre-feet of fully consumptive surface water in the Lost Creek Designated Ground Water Basin. In June 2022, the Company acquired 370 acre-feet of fully consumptive surface water through the acquisition of three wells located in the Lost Creek Designated Ground Water Basin (both acquisitions are referred to collectively as the Lost Creek Water). The Lost Creek Water is currently adjudicated for municipal/industrial use, and the Company has filed an application with the Colorado water court to change the use of the water to augment its municipal/industrial water supplies at the Lowry Ranch. The Company has consolidated the Lost Creek Water with the Rangeview Water Supply to provide service to the Rangeview District's customers both on and off the Lowry Ranch.

Pursuant to the Rangeview Water Agreements, the Company owns 11,650 acre-feet of water consisting of 10,000 acre-feet of groundwater and 1,650 acre-feet of average yield surface water which can be exported off the Lowry Ranch to serve area users (referred to as Export Water). The 1,650 acre-feet of surface rights are subject to completion of documentation by the Land Board related to the Company's exercise of its right to substitute an aggregate gross volume of 165,000 acre-feet of its groundwater for 1,650 acre-feet per year of adjudicated surface water and to use this surface water as Export Water. Additionally, assuming completion of the substitution of groundwater for surface water, the Company has the exclusive right to provide water and wastewater service, through 2081, to all water users on the Lowry Ranch and the right to develop an additional 13,685 acre-feet of groundwater and 1,650 acre-feet of adjudicated surface water to serve customers either on or off the Lowry Ranch. The Rangeview Water Agreements also provide for the Company to use surface reservoir storage capacity in providing water service to customers both on and off the Lowry Ranch.

Services on the Lowry Ranch – Pursuant to the Rangeview Water Agreements, the Company designs, finances, constructs, operates and maintains the Rangeview District's water and wastewater systems to provide service to the Rangeview District's customers on the Lowry Ranch. The Company will operate both the water and the wastewater systems during the contract period, and the Rangeview District owns both systems. After 2081, ownership of the water system will revert to the Land Board, with the Rangeview District retaining ownership of the wastewater system.

Rates and charges for all water and wastewater services on the Lowry Ranch, including tap fees and usage or monthly fees, are governed by the terms of the Rangeview Water Agreements. Rates and charges cannot exceed the average of similar rates and charges of three surrounding municipal water and wastewater service providers, which are reassessed annually. Pursuant to the Rangeview Water Agreements, the Land Board receives a royalty of 10% or 12% of gross revenue from the sale or disposition of the water, depending on the nature and location of the purchaser of the water, except that the royalty on tap fees shall be 2% (other than taps sold for Sky Ranch which are exempt). The Company also is required to pay the Land Board a minimum annual water production fee of approximately \$46,000 per year, which offsets earned royalties, and annual rent of \$8,400 which amount is increased every five years based on the Consumer Price Index for Urban Customers. The Rangeview District retains 2% of the remaining revenue, and the Company receives 98% of the remaining revenue after the Land Board royalty. The Land Board does not receive a royalty on wastewater fees. The Company receives 100% of the Rangeview District's wastewater tap fees and 90% of the Rangeview District's wastewater treatment fees (the Rangeview District retains the other 10%).

Export Water – Pursuant to the Rangeview Water Agreements, the Company owns the Export Water and intends to use it to provide wholesale water and wastewater services to customers off the Lowry Ranch, including customers of the Rangeview District and other governmental entities and industrial and commercial customers. The Company will own all wholesale facilities required to extend water and wastewater services using its Export Water. The Company anticipates contracting with third parties for the construction of these facilities. If the Company sells Export Water, the Company is required to pay royalties to the Land Board ranging from 10% to 12% of gross revenue, except that the royalty on tap fees shall be 2% (other than taps sold for Sky Ranch which are exempt).

WISE

The WISE Partnership Agreement provides for the purchase of certain infrastructure (i.e., pipelines, water storage facilities, water treatment facilities, and other appurtenant facilities) to deliver water to and among the ten members of the SMWA, Denver Water and Aurora Water. Certain infrastructure has been constructed and other infrastructure will be constructed over the next several years. During each of the years ended August 31, 2024 and 2023, the Company made less than \$0.1 million in capital investments in WISE. Capitalized terms used under this caption are defined in Note 8 below.

The Arapahoe County Fairgrounds Water and Water System

The Company owns 321 acre-feet of groundwater purchased pursuant to its agreement with Arapahoe County. The Company plans to use this water in conjunction with its Rangeview Water Supply in providing water to areas outside the Lowry Ranch. The \$2.9 million of capitalized costs noted in the table Investment in Water and Water Systems above includes the costs to construct various wholesale and special facilities, including a new deep water well, a 500,000-gallon water tank and pipelines to transport water to the Arapahoe County fairgrounds.

The Lost Creek Water Supply

On June 27, 2022, Pure Cycle acquired 370 acre-feet of designated groundwater rights located in the Lost Creek basin in Weld County Colorado. The acquisition included three water wells and related well permits and structures. The total purchase price was \$8.7 million, which was allocated entirely to the water rights as the other assets were deemed to not have determinable values. This acquisition of Lost Creek water was accounted for as an asset acquisition.

In August 2019, the Company purchased 150 acre-feet of ditch water rights, 300 acre-feet of designated groundwater rights, 70 acre-feet of deep groundwater rights and 260 acres of land in the Lost Creek Basin in Weld County. Total consideration for the land, water and related costs was \$3.5 million. The Company allocated the acquisition cost to the land and water rights based on estimates of each asset's respective fair value at the acquisition date. The Lost Creek land and water acquisition was accounted for as an asset acquisition.

Service to Customers Not on the Lowry Ranch

Sky Ranch – In 2010, the Company purchased approximately 930 acres of undeveloped land known as Sky Ranch. The property includes the rights to approximately 830 acre-feet of water, which the Company is using in conjunction with its Rangeview Water Supply to provide water service to the Rangeview District's customers at Sky Ranch. The \$13.5 million of capitalized costs includes the costs to acquire the water rights and to construct various facilities.

Total consideration for the land, water, and acquisition related costs and fees was \$7.6 million. The Company allocated the total acquisition cost to the land and water rights based on estimates of each asset's respective fair value at the acquisition date. The purchase of the Sky Ranch land and water was accounted for as an asset acquisition.

In June 2017, the Company completed and placed into service its Sky Ranch pipeline, which cost \$.7 million to construct, connecting its Sky Ranch water system to the Rangeview District's water system.

Wild Pointe – On December 15, 2016, the Rangeview District, acting by and through its water activity enterprise, and Elbert & Highway 86 Commercial Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water enterprise (Elbert 86 District), entered into a Water Service Agreement (Wild Pointe Service Agreement). Subject to the conditions set forth in the Wild Pointe Service Agreement and the terms of the Company's engagement by the Rangeview District as the Rangeview District's exclusive service provider, the Company acquired, among other things, the exclusive right to provide water services to residential and commercial customers in the Wild Pointe development, located in unincorporated Elbert County, Colorado, for \$1.6 million in cash. Pursuant to the terms of the Wild Pointe Service Agreement, the Company, in its capacity as the Rangeview District's service provider, is responsible for providing water services to all users of water services within the boundaries and service area of the Elbert 86 District and for operating and maintaining the Elbert 86 District's water system. In exchange, the Company receives 100% of the tap fees from new customers and 98% of all other fees and charges, including monthly water service revenue, remitted to the Rangeview District by the Elbert 86 District pursuant to the Wild Pointe Service Agreement. The Elbert 86 District's water system currently provides water service to approximately 247 SFE water connections in Wild Pointe.

O&G Leases

In 2011, the Company entered the Sky Ranch O&G Lease. Pursuant to the Sky Ranch O&G Lease, the Company received an up-front payment for the purpose of exploring for, developing, producing, and marketing oil and gas on 634 acres of mineral estate owned by the Company at its Sky Ranch property. The Sky Ranch O&G Lease is now held by production, entitling the Company to royalties based on production.

In September 2017, the Company entered a three-year O&G Lease for the purpose of exploring for, developing, producing, and marketing oil and gas on 40 acres of mineral estate owned by the Company adjacent to the Lowry Ranch. This O&G lease expired during the year ended August 31, 2024.

Land and Mineral Rights

As part of the Sky Ranch acquisition, the Company acquired approximately 930 acres of land, of which approximately 354 acres have been sold to home builders for the purpose of building residential homes or dedicated for schools and public rights of way.

As of August 31, the costs allocated to the Company's land held for development is as follows:

	August 31, 2024	August 31, 2023
Sky Ranch land	\$ 1,982	\$ 1,982
Sky Ranch development costs	1,483	2,452
Lost Creek land	218	218
Net land and mineral interests held for development	<u>\$ 3,683</u>	<u>\$ 4,652</u>

The Company also owns 700 acres of land in the Arkansas River valley which is held for investment purposes.

NOTE 5 – REIMBURSABLE PUBLIC IMPROVEMENTS AND NOTE RECEIVABLE FROM THE SKY RANCH CAB

The note receivable from the Sky Ranch CAB reports the balances owed by the Sky Ranch CAB to the Company for public improvements paid for by the Company which are reimbursable from the Sky Ranch CAB, project management fees, and interest accrued on the unpaid balances related to the ongoing development of the Sky Ranch master planned community. The Company has advanced funds to the Sky Ranch CAB for the cost of public improvements which the Sky Ranch CAB is responsible for constructing and the Company is obligated to fund through various funding agreements between the Sky Ranch CAB and the Company. During the year ended August 31, 2024, the Company spent \$ 14.4 million on public improvements which are payable by the Sky Ranch CAB to

the Company and were therefore added to the note receivable from the Sky Ranch CAB. Additionally, for the year ended August 31, 2024, project management fees owed to the Company of \$0.7 million, and interest income on the outstanding note receivable of \$1.6 million were also added to the note receivable. During the year ended August 31, 2024, the Sky Ranch CAB made two payments to the Company on the note totaling \$0.7 million, which was applied to interest on the note.

The following table summarizes the activity and balances associated with the note receivable from the Sky Ranch CAB:

	Year Ended	
	August 31, 2024	August 31, 2023
Beginning balance	\$ 24,999	\$ 17,208
Additions	16,715	8,699
Payments received	(750)	(908)
Ending balance	\$ 40,964	\$ 24,999

The note receivable from the Sky Ranch CAB accrues interest at 6% per annum. Public improvements which are not probable of reimbursement at the time of being incurred are considered contract fulfillment costs and are recorded as land development construction costs as incurred. If public improvement costs are deemed probable of collection, the costs are recognized as notes receivable - related party. The Company assesses the collectability of the note receivable from the Sky Ranch CAB, which includes reimbursable public improvements, project management fees and the related interest income, when events or circumstances indicate the amounts may not be recoverable. The Sky Ranch CAB has an obligation to repay the Company, but the ability of the Sky Ranch CAB to do so before the contractual termination dates is dependent upon the establishment of a tax base or other fee generating activities sufficient to fund reimbursable costs incurred.

NOTE 6 – PARTICIPATING INTERESTS IN EXPORT WATER

The acquisition of the Rangeview Water Supply was finalized with the signing of the CAA in 1996. Upon entering the CAA, the Company recorded a liability of \$11.1 million, which represented the cash the Company received from the participating interest holders that was used to purchase the Company's Export Water (described in greater detail in Note 4). The Company agreed to remit a total of \$31.8 million of proceeds received from the sale of Export Water to the participating interest holders in return for their initial \$11.1 million investment. The obligation for the \$11.1 million was recorded as debt, and the remaining \$20.7 million contingent liability was (and is) not reflected on the Company's balance sheet because the obligation to pay this is contingent on the sale of Export Water, the amounts and timing of which are not reasonably determinable.

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. Additionally, 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.

As the proceeds from the sale of Export Water are received and the amounts are remitted to the CAA holders, the Company allocates a ratable percentage of each 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. Because the original recorded liability, which was \$11.1 million, was 35% of the original total liability of \$31.8 million, approximately 35% of each payment remitted to the CAA holders is allocated to the recorded liability account. The remaining portion of each payment is allocated to the contingent obligation, which is recorded on a net revenue basis.

Since entering the CAA, the Company has repurchased nearly all of the CAA obligations, which retained their original priority. During the year ended August 31, 2023 the Company acquired \$0.7 million of the remaining \$1.0 million of the CAA obligations for a cash payment of just over \$0.1 million.

Because of these acquisitions, the Company is currently receiving 99% of the total proceeds from the sale of Export Water (after payment of the Land Board royalty). Additionally, as a result of the acquisitions, and the consideration from the cumulative sales of Export Water, at August 31, 2023, the remaining total potential third-party unrecorded contingent obligation is \$0.2 million, while the recorded portion has been eliminated.

The CAA includes contractually established priorities which call for payments to CAA holders in order of their priority. This means the first payees receive their full payment before the next priority level receives any payment and so on until full repayment. As a result of

the CAA obligation acquisition during the year ended August 31, 2023, the Company will be entitled to all but approximately \$0.2 million of the proceeds from the sale of Export Water after deduction of the Land Board royalty.

NOTE 7 – ACCRUED LIABILITIES

At August 31, 2024 and 2023, the Company’s current accrued liabilities are:

<i>(In thousands)</i>	August 31, 2024	August 31, 2023
Accrued compensation	\$ 1,045	\$ 985
Other operating payables	147	406
Property taxes	206	148
Operating lease obligation, current	73	118
Professional fees	5	70
Rental deposits	38	34
Total accrued liabilities	\$ 1,514	\$ 1,761
Land development costs due to the Sky Ranch CAB	\$ 1,556	\$ 727
Due to Rangeview Metropolitan District	652	294
Total accrued liabilities - related parties	\$ 2,208	\$ 1,021

The amounts due to the Sky Ranch CAB are included in notes receivable – related parties, including accrued interest or land under development. The amounts recorded in land under development will be subsequently expensed through Land development construction costs. In addition, the amounts payable to the Rangeview District relate to construction costs of water infrastructure, these costs are included in Investments in water and water systems. The remaining items that make up accrued liabilities are generally self-explanatory.

NOTE 8 – DEBT AND OTHER LONG-TERM OBLIGATIONS

The total scheduled maturities of the Company’s loans for each of the years ending August 31 are as follows, with each loan described below the table:

<i>(In thousands)</i>	Scheduled principal payments
Within 1 year	\$ 104
Year 2	418
Year 3	1,343
Year 4	3,151
Year 5	290
Thereafter	1,638
Total principal payments	6,944
Deferred financing costs	(59)
Total principal payments, net	\$ 6,885

SFR Note 1

On November 29, 2021, PCY Holdings, LLC, a wholly owned subsidiary of the Company, entered a Promissory Note (SFR Note) with its primary bank to reimburse amounts expended for the construction of the first three single-family rental homes. The SFR Note has the following terms:

- Initial principal amount of \$1.0 million
- Floating per annum interest rate equal to the Western Edition of the “Wall Street Journal” Prime Rate plus 0.5% (4.25% as of August 31, 2024), which has a floor of 3.75% and a ceiling of 4.25%. In the event of default, the interest rate on the SFR Note would be increased by adding an additional 2.0%
- Maturity date of December 1, 2026
- Six interest only payments beginning January 1, 2022
- Fifty-three principal and interest payments each month beginning July 1, 2022 in the amount of \$4,600 each

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- Estimated final principal and interest balloon payment of \$0.9 million payable on December 1, 2026
- Secured by the three single-family rental homes
- Required minimum debt service coverage ratio of 1.10, measured annually based on audited financial statements, calculated as net operating income less distributions divided by required principal and interest payments, with net operating income defined as net income plus interest, depreciation, and amortization.

Lost Creek Note

On June 28, 2022, the Company entered a loan with its primary bank to fund the acquisition of 70 acre-feet of water rights the Company acquired on June 27, 2022, in the Lost Creek region of Colorado (Lost Creek Note). The Lost Creek Note has a principal balance of \$3.0 million, a ten-year maturity, monthly interest only payments averaging \$12,000 per month for thirty-six months beginning on July 28, 2022, twenty-four monthly principal and interest payments of \$42,000 beginning on July 28, 2025, fifty-nine monthly principal and interest payments of \$32,000 beginning on July 28, 2027, and a balloon payment of less than \$0.8 million plus unpaid and accrued interest due on June 28, 2032. The Lost Creek Note has a thirty-year amortization period and a fixed per annum interest rate equal to 4.90%. Lost Creek Note is secured by the Lost Creek Water rights acquired with the note and any fees derived from the use of the Lost Creek Water rights. The Lost Creek Note does not contain any financial covenants.

SFR Note 2

On August 30, 2023, PCY Holdings, LLC, a wholly owned subsidiary of the Company, entered a Promissory Note (SFR Note 2) with its primary bank to reimburse amounts expended for the construction of the next 11 single-family rental homes. The SFR Note 2 has the following terms:

- Initial principal amount of \$3.0 million
- An interest rate of 7.51%. In the event of default, the interest rate on the SFR Note 2 would be increased by adding an additional 5.0%
- Maturity date of August 30, 2028
- Fifty-nine principal and interest payments each month beginning September 30, 2023 in the amount of \$21,200 each
- Estimated final principal and interest balloon payment of \$2.9 million payable on August 30, 2028
- Secured by 11 single-family rental homes
- Required minimum EBITDA of \$3.0 million, measured annually at each fiscal year end.

Working Capital Line of Credit

On January 31, 2022, the Company entered into a Business Loan Agreement (Working Capital LOC) with its primary bank to provide a \$5.0 million operating line of credit. The Working Capital LOC has a two-year maturity, monthly interest only payments if the line is drawn upon with unpaid principal and interest due at maturity, and a floating per annum interest rate equal to the rate published in the Western Edition of the Wall Street Journal as the Prime Rate plus 0.5%, which has a floor of 3.75%. In the event of default, the interest rate on the Working Capital LOC would be increased by adding an additional 2.0%. During the year ended August 31, 2024, the Company extended the Working Capital LOC, which now has an expiration date of January 31, 2026, a floating per annum interest rate equal to the rate published in the Western Edition of the Wall Street Journal as the Prime Rate plus 0.0% (8.5% as of August 31, 2024) and an amended floor rate of 5.00%. As of August 31, 2024, the Company has not drawn on the Working Capital LOC.

Letters of Credit

During the year August 31, 2021, the Company entered four Irrevocable Letters of Credit (LCs). The LCs are to guarantee the Company's performance related to certain construction projects at Sky Ranch. As of August 31, 2024, these four LCs totaled \$2.3 million. During the year ended August 31, 2023, the Company entered into an additional LC for less than \$0.2 million, which expired one year from date of issuance but was renewed for a one-year period and can be renewed for additional periods of one year. During the year ended August 31, 2024, the Company entered into an additional three LCs totaling \$0.9 million. So long as the Company performs on the contracts, the LCs will expire at various dates from December 2024 through November 2025. All eight LCs are secured by cash balances maintained in restricted cash accounts at the Company's banks.

The Participating Interests in Export Water Supply are obligations of the Company that have no scheduled maturity dates. Therefore, these liabilities are not disclosed in tabular format. However, the Participating Interests in Export Water Supply are described in Note 6.

WISE Partnership

During 2014, the Company, through the Rangeview District, consented to the waiver of all contingencies set forth in the Amended and Restated WISE Partnership – Water Delivery Agreement, dated December 31, 2013 (WISE Partnership Agreement), among the City and County of Denver acting through its Board of Water Commissioners (Denver Water), the City of Aurora acting by and through its utility enterprise (Aurora Water), and the South Metro WISE Authority (SMWA). SMWA was formed by the Rangeview District and nine other governmental or quasi-governmental water providers pursuant to the South Metro WISE Authority Formation and Organizational Intergovernmental Agreement, dated December 31, 2013 (SM-IGA), to enable the members of SMWA to participate in the regional water supply project known as the Water Infrastructure Supply Efficiency partnership (WISE) created by the WISE Partnership Agreement. The SM-IGA specifies each member's pro rata share of WISE and the members' rights and obligations with respect to WISE. The WISE Partnership Agreement provides for the purchase of certain infrastructure (i.e., pipelines, water storage facilities, water treatment facilities, and other appurtenant facilities) to deliver water to and among the members of SMWA, Denver Water and Aurora Water. Certain infrastructure has been constructed and other infrastructure will be constructed over the next several years.

Pursuant to the terms of the Rangeview/Pure Cycle WISE Project Financing and Service Agreement (WISE Financing Agreement) between the Company and the Rangeview District, the Company has an agreement to fund the Rangeview District's participation in WISE effective as of December 22, 2014. During each of the years ended August 31, 2024 and 2023, the Company, through the Rangeview District, purchased 134 acre-feet and 199 acre-feet of WISE water for \$0.4 million and \$0.4 million. See further discussion in Note 15.

Lease Commitments

Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheet. For lease agreements with an initial term of more than twelve months, the Company combines the lease and non-lease components in determining the lease liabilities and right-of-use (ROU) assets. Operating lease expense is generally recognized evenly over the term of the lease.

Effective October 1, 2023, the Company replaced its operating lease with a new operating lease (New Lease). The New Lease decreased the square footage of leased space to approximately 11,434 square feet. The New Lease replaced the July 1, 2022 operating lease and June 1, 2023 amendment. In addition, a 5,100 square foot sublease was terminated after entering into the New Lease. The New Lease has an initial thirty-six-month term with the option to extend the lease term for up to two two-year periods. The New Lease rental payment is approximately \$10,000 per month which includes a certain pro-rata share of the lessor's operating costs, which are variable in nature. The monthly payment will increase roughly 2.0% after twelve months. The Company's lease agreement does not contain any residual value guarantees or material restrictive covenants. As a result of the New Lease, the Company's associated right of use asset and liability decreased, as noted in the table below. For the years ended August 31, 2024 and 2023, payments on lease liabilities totaled less than \$0.1 million.

The Company's lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate is determined based on information available at lease commencement date for purposes of determining the present value of lease payments.

ROU lease assets and lease liabilities for the Company’s operating leases were recorded in the consolidated balance sheet as follows:

<i>(In thousands)</i>	August 31, 2024	August 31, 2023
Operating leases - ROU assets	\$ 158	\$ 357
Operating lease liabilities, current	\$ 73	\$ 118
Operating lease liabilities, long term	87	242
Total lease liability	\$ 160	\$ 360
Weighted average remaining lease term (in years)	2.0	2.8
Weighted average discount rate	7.5 %	6.0 %

NOTE 9 – SHAREHOLDERS’ EQUITY

Preferred Stock

The Company’s non-voting Series B Preferred Stock has a preference in liquidation of \$1.00 per share less any dividends previously paid. Additionally, the Series B Preferred Stock is redeemable at the discretion of the Company for \$1.00 per share less any dividends previously paid. In the event the proceeds from the sale or disposition of Export Water rights exceed \$36.0 million the Series B Preferred Shareholders will receive the next \$0.4 million of proceeds in the form of a dividend. The terms of the Series B Preferred Stock prohibit payment of dividends on common stock unless all dividends accrued on the Series B Preferred Stock have been paid. To date, no dividends have been accrued as this contingency has not been met.

Equity Compensation Plan

The Company maintains the 2024 Equity Incentive Plan (2024 Equity Plan), which was approved by shareholders in January 2024 and became effective January 17, 2024. Executives, eligible employees, consultants, and non-employee directors are eligible to receive options and stock grants pursuant to the 2024 Equity Plan. Options to purchase shares of stock and restricted stock awards can be granted with exercise prices, vesting conditions and other performance criteria determined by the Compensation Committee of the Company’s board of directors. The Company has reserved 2.0 million shares of common stock for issuance under the 2024 Equity Plan. As of August 31, 2024, 1,608 shares had been issued and there were 1,998,392 shares available for grant under the 2024 Equity Plan. Prior to the effective date of the 2024 Equity Plan, the Company granted stock awards to eligible participants under its 2014 Equity Incentive Plan (2014 Equity Plan), which expired April 12, 2024. As of August 31, 2024, restricted stock awards and awards to purchase 577,000 shares of the Company’s common stock have been made under the 2014 Equity Plan, of which 534,500 remain outstanding. No additional awards may be granted pursuant to the 2014 Equity Plan.

The Company estimates the fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model (Black-Scholes model). Using the Black-Scholes 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 consolidated statements of income. Option forfeitures are to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company does not expect any forfeiture of its options; therefore, the compensation expense has not been reduced for estimated forfeitures. For the years ended August 31, 2024 and 2023, 0 options and 30,000 options expired. The Company attributes the value of share-based compensation to expense using the straight-line single option method for all options granted.

The Company’s determination of the estimated fair value of share-based payment awards on the date of grant is affected by the following variables and assumptions:

- The grant date exercise price – is the closing market price of the Company’s common stock on the date of grant;
- Estimated dividend rates – based on historical and anticipated dividends over the life of the option;
- Life of the option – based on historical experience, including actual and projected employee stock option exercise, option grants have lives of between five and ten years;
- 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.

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For the year ended August 31, 2024, the Company granted no stock options. In addition, six non-employee Board members were each granted 3,006 unrestricted stock shares and one non-employee Board member was granted 1,608 unrestricted stock shares. The fair market value of the unrestricted shares for share-based compensation expense is equal to the closing price of the Company's common stock on the date of grants of \$9.98 and \$9.33. Stock-based compensation expense includes \$0.2 million of expense related to these unrestricted stock grants. The unrestricted stock grants were fully expensed at the date of the grant because no vesting requirements existed for the unrestricted stock grants.

For the year ended August 31, 2023, the Company granted no stock options. The six non-employee Board members were each granted 3,033 unrestricted stock grants. The fair market value of the unrestricted shares for share-based compensation expensing is equal to the closing price of the Company's common stock on the date of grant of \$9.89. Stock-based compensation expense includes \$0.2 million of expense related to these unrestricted stock grants. The unrestricted stock grants were fully expensed at the date of the grant because no vesting requirements existed for the unrestricted stock grants.

During the years ended August 31, 2024 and 2023, 38,500 and 119,500 options were exercised. For the options exercised in 2024, the Company had no options exercised for cash and only net settlement exercises of stock options, whereby the optionee did not pay cash for the options but instead received the number of shares equal to the difference between the exercise price and the market price on the date of exercise. The net settlement exercises during the year ended August 31, 2024, resulted in 17,456 shares issued and 21,044 options cancelled in settlement of shares issued. For the options exercised in 2023, the Company had no options exercised for cash and only net settlement exercises of stock options, whereby the optionee did not pay cash for the options but instead received the number of shares equal to the difference between the exercise price and the market price on the date of exercise. The net settlement exercises during the year ended August 31, 2023, resulted in 63,877 shares issued and 55,623 options cancelled in settlement of shares issued.

The following table summarizes the combined stock option activity for the 2014 Equity Plan and 2024 Equity Plan for the years ended August 31, 2024 and August 31, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Approximate Aggregate Intrinsic Value (in thousands)
Outstanding at August 31, 2023	563,000	\$ 9.15	5.5	\$ 1,221
Granted	—	\$ —		
Net settlement exercised	(38,500)	\$ —		
Forfeited / Expired	—	\$ —		
Outstanding at August 31, 2024	524,500	\$ 9.42	4.7	\$ 877
Options exercisable at August 31, 2024	465,500	\$ 9.23	4.5	\$ 820
Outstanding at August 31, 2022	712,500	\$ 8.75	5.7	\$ 1,489
Granted	—	\$ —		
Net settlement exercised	(119,500)	\$ —		
Forfeited / Expired	(30,000)	\$ —		
Outstanding at August 31, 2023	563,000	\$ 9.15	5.5	\$ 1,221

The following table summarizes the activity and value of non-vested options as of and for the years ended August 31, 2024 and August 31, 2023:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested options outstanding at August 31, 2023	111,000	\$ 4.43
Granted	—	\$ —
Vested	(52,000)	\$ 4.41
Forfeited / Expired	—	\$ —
Non-vested options outstanding at August 31, 2024	<u>59,000</u>	\$ 4.45
Non-vested options outstanding at August 31, 2022	232,998	\$ 4.47
Granted	—	\$ —
Vested	(91,998)	\$ 4.31
Forfeited	(30,000)	\$ 5.16
Non-vested options outstanding at August 31, 2023	<u>111,000</u>	\$ 4.43

All non-vested options are expected to vest. For the years ended August 31, 2024 and 2023, the total fair value of options that vested during the year was \$0.2 million and \$0.4 million. For the year ended August 31, 2024, there were no options granted.

For the years ended August 31, 2024 and 2023, share-based compensation expense was \$0.4 million and \$0.5 million.

As of August 31, 2024, the Company had unrecognized share-based compensation expenses totaling \$0.1 million relating to non-vested options that are expected to vest. The weighted average period over which these options are expected to vest is less than 1 year. The Company has not recorded any excess tax benefits to additional paid-in capital.

Warrants

As of August 31, 2024, the Company had outstanding warrants to purchase 92 shares of common stock at an exercise price of \$1.80 per share. These warrants expire six months from the earlier of:

- The date that all the Export Water is sold or otherwise disposed of,
- The date that the CAA is terminated with respect to the original holder of the warrant, or
- The date on which the Company makes the final payment pursuant to Section 2.1(r) of the CAA.

No warrants were exercised during fiscal 2024 and 2023.

NOTE 10 – SIGNIFICANT CUSTOMERS

The Company has significant customers in its operations. The table below presents the percentage of total revenue for the reported customers for the years ended August 31, 2024 and 2023. For water and wastewater customers, the Company primarily provides services on behalf of the Rangeview District for which the significant end users include all Sky Ranch homes in the aggregate combined with the Sky Ranch CAB and two oil & gas operators. The home builders at Sky Ranch account for lot purchase revenue but also for water and wastewater tap fees revenue.

% of Total Revenue Generated From:	Year Ended	
	August 31, 2024	August 31, 2023
Lenmar	24 %	17 %
Melody (DR Horton)	19 %	20 %
Two oil & gas operators	19 %	18 %
KB Home	10 %	12 %
Challenger	9 %	16 %
Sky Ranch CAB	9 %	7 %

Additionally, as of August 31, 2023, 14% of the trade accounts receivable balance was owed by National Heritage Academies related to construction activities for the school site managed by the Company on the school's behalf.

NOTE 11 – INCOME TAXES

For the year ended August 31, 2024, Pure Cycle recorded income tax expense of \$4.0 million, which consisted of current income tax expense of almost \$4.0 million and deferred income tax expense of less than \$0.1 million. The deferred tax expense consists mainly of timing difference between book and tax depreciation of fixed assets.

For the year ended August 31, 2023, Pure Cycle recorded income tax expense of \$1.5 million, which consisted of current income tax expense of \$1.2 million and deferred income tax expense of \$0.3 million. The deferred tax expense consists mainly of timing difference between book and tax depreciation of fixed assets.

During the year ended August 31, 2024, Pure Cycle paid Federal and State income tax installments of \$1.6 million and \$0.5 million. During the year ended August 31, 2023, Pure Cycle paid Federal and State income tax installments of \$3.5 million and \$0.9 million.

Deferred income taxes reflect the tax effects of net operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets as of August 31 are as follows:

<i>(In thousands)</i>	August 31, 2024	August 31, 2023
Deferred tax assets (liabilities):		
Depreciation and depletion	\$ (2,237)	\$ (2,155)
Non-qualified stock options	527	484
Accrued compensation	230	170
Deferred revenue	31	121
Other	54	28
Net deferred tax liability	<u>\$ (1,395)</u>	<u>\$ (1,352)</u>

As of August 31, 2024 and 2023, the Company had no liability for unrecognized tax benefits.

Income taxes computed using the federal statutory income tax rate differs from the Company’s effective tax rate primarily due to the following for the fiscal years ended August 31:

	Year Ended	
	August 31, 2024	August 31, 2023
Expected expense (benefit) from federal taxes at statutory rate of 21%	\$ 3,283	\$ 1,306
State taxes, net of federal benefit	559	201
Permanent and other differences	148	(57)
Stock Compensation	(14)	12
Other	43	59
Total income tax expense	<u>\$ 4,019</u>	<u>\$ 1,521</u>

At August 31, 2024 and 2023, the Company had no net operating loss carryforwards available for income tax purposes.

NOTE 12 – 401(k) PLAN

The Company maintains the Pure Cycle Corporation 401(k) Profit Sharing Plan (401(k) Plan), a defined contribution retirement plan for the benefit of its employees. The Company matches employee contributions at the rate of 50% of the first 3% up to a maximum of \$2,500 per annum. The contributions vest based on years of service - first anniversary 25%, second anniversary 50%, third anniversary 75% and the fourth anniversary 100%. The Company pays the annual administrative fees of the 401(k) Plan, and the 401(k) Plan participants pay the investment fees. The 401(k) Plan is open to all employees, age 18 or older, who have been employees of the Company for at least three months.

For the years ended August 31, 2024 and 2023, the Company recorded less than \$0.1 million of expenses related to the 401(k) Plan.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company has historically been involved in various claims, litigation and other legal proceedings that arise in the ordinary course of its business. The Company records an accrual for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes. The Company makes such estimates based on information known about the claims and experience in contesting, litigating, and settling similar claims. Disclosures are also provided for reasonably possible losses that could have a material effect on the Company’s financial position, results of operations or cash flows. As of August 31, 2024, the Company had no contingencies where the risk of material loss was probable or reasonably possible of resulting in a material loss.

NOTE 14 – SEGMENT REPORTING

An operating segment is defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the CODM, or decision-making group, to evaluate performance and make operating decisions. The Company has identified its CODM as its Chief Executive Officer.

Based on the methods used by the CODM to allocate resources, the Company has identified two operating segments which meet GAAP segment disclosure requirements, namely the water and wastewater resource development segment and the land development segment. The Company’s new single-family rental business will likely be presented as a third segment in future periods when it is material to the Company’s operations.

The water and wastewater resource development segment provides water and wastewater services to customers for fees. The water is provided by the Company using water rights owned or controlled by the Company, and developing infrastructure to divert, treat and distribute that water and collect, treat, and reuse wastewater. The land resource development segment includes all the activities necessary to develop and sell finished lots, which as of August 31, 2024 and 2023, was done exclusively at the Company’s Sky Ranch Master Planned Community.

O&G operations, although material in certain years, are deemed a passive activity as the CODM does not actively allocate resources to these projects; therefore, this is not classified as a reportable segment.

The tables below present the measure of profit and assets the CODM uses to assess the performance of the segment for the periods presented:

	Year Ended August 31, 2024			
<i>(In thousands)</i>	Water and wastewater resource development	Land development	Single-family rental	Total
Total revenue	\$ 11,561	\$ 16,705	\$ 481	\$ 28,747
Cost of revenue	3,777	3,519	188	7,484
Depreciation and depletion	1,504	—	—	1,504
Total cost of revenue	5,281	3,519	188	8,988
Segment (loss) profit	\$ 6,280	\$ 13,186	\$ 293	\$ 19,759

	Year Ended August 31, 2023			
<i>(In thousands)</i>	Water and wastewater resource development	Land development	Single-family rental	Total
Total revenue	\$ 7,323	\$ 7,098	\$ 165	\$ 14,586
Cost of revenue	2,923	1,892	73	4,888
Depreciation and depletion	1,658	—	—	1,658
Total cost of revenue	4,581	1,892	73	6,546
Segment profit	\$ 2,742	\$ 5,206	\$ 92	\$ 8,040

The following table summarizes the Company's total assets by segment. The assets consist of water rights and water and wastewater systems in the Company's water and wastewater resource development segment; land, land development costs and deposits in the Company's land development segment; and the cost of the homes in the single-family rental line. The Company's other assets ("Corporate") primarily consist of cash, cash equivalents, restricted cash, equipment, and related party notes receivables.

<i>(In thousands)</i>	August 31, 2024	August 31, 2023
Water and wastewater resource development	\$ 64,616	\$ 63,129
Land development	8,521	7,710
Single-family rental	5,371	5,128
Corporate	68,846	57,249
Total assets	<u>\$ 147,354</u>	<u>\$ 133,216</u>

NOTE 15 – RELATED PARTY TRANSACTIONS

The Rangeview District

On December 16, 2009, the Company entered into a Participation Agreement with the Rangeview District, whereby the Company agreed to provide funding to the Rangeview District in connection with the Rangeview District joining the South Metro Water Supply Authority (SMWSA). During the years ended August 31, 2024 and 2023, the Company provided funding of less than \$0.1 million to the Rangeview District related to this Participation Agreement.

Through the WISE Financing Agreement, to date the Company has made payments totaling \$6.4 million to purchase certain rights to use existing water transmission and related infrastructure acquired by the WISE project and to construct the connection to the WISE system. At August 31, 2024, the amounts are included in Investments in water and water systems on the Company's balance sheet. During the year ended August 31, 2024, the Company, through the Rangeview District, purchased 134 acre-feet of WISE water for \$0.4 million.

The cost of the water to the members is based on the water rates charged by Aurora Water and can be adjusted each January 1. As of January 1, 2024, WISE water was \$6.55 per thousand gallons and such rate remained in effect through calendar 2024. Effective, January 1, 2023, WISE water increased to \$6.48 per thousand gallons which was in effect through the end of calendar 2023. In addition, the Company pays certain system operational and construction costs. If a WISE member, including the Rangeview District, does not need its WISE water each year or a member needs additional water, the members can trade and/or buy and sell water amongst themselves.

During the years ended August 31, 2024 and 2023, the Company provided \$0.6 million and \$0.6 million of financing to the Rangeview District to fund the Rangeview District's obligation to purchase WISE water rights and pay for operational and construction charges. Ongoing funding requirements are dependent on the WISE water subscription amount and the Rangeview District's allocated share of the operational and overhead costs of SMWA and construction activities related to delivery of WISE water.

The Company has outstanding notes receivable of \$42.2 million in the aggregate from the Rangeview District and the Sky Ranch CAB, which are related parties, as discussed below:

The Rangeview District is a quasi-municipal corporation and political subdivision of Colorado formed in 1986 for the purpose of providing water and wastewater service to the Lowry Ranch and other approved areas. The Rangeview District is governed by an elected board of directors. Eligible voters and persons eligible to serve as a director of the Rangeview District must own an interest in property within the boundaries of the Rangeview District. The Company owns certain rights and real property interests which encompass the current boundaries of the Rangeview District.

In 1995, the Company extended a loan to the Rangeview District. The loan provided for borrowings of up to \$0.25 million, is unsecured, and bears interest based on the prevailing prime rate plus 2% (10.50% at August 31, 2024). The maturity date of the loan is December 31, 2025. Beginning in January 2014, the Rangeview District and the Company entered into a funding agreement that allows the Company to continue to provide funding to the Rangeview District for day-to-day operations and accrue the funding into a note that bears interest at a rate of 8% per annum and remains in full force and effect for so long as the Lease remains in effect. The August 31, 2024 balance in notes receivable - related parties, other totaled \$1.2 million, which included borrowings of \$1.2 million and accrued interest of less

than \$0.1 million. During the year ended August 31, 2024, the Rangeview District made payments totaling \$0.3 million on the notes payable to the Company. The August 31, 2023 balance in notes receivable - related parties, other totaled \$ 1.5 million, which included borrowings of \$1.3 million and accrued interest of \$0.1 million.

Sky Ranch CAB

Pursuant to a certain Community Authority Board Establishment Agreement, as the same may be amended from time to time, Sky Ranch Metropolitan District No. 1 and Sky Ranch Metropolitan District No. 5 formed the Sky Ranch CAB to, among other things, design, construct, finance, operate and maintain certain public improvements for the benefit of the property within the boundaries and/or service area of the Sky Ranch Districts. In order for the public improvements to be constructed and/or acquired, it is necessary for each Sky Ranch District, directly or through the Sky Ranch CAB, to be able to fund the improvements and pay its ongoing operations and maintenance expenses related to the provision of services that benefit the property. In November 2017, but effective as of January 1, 2018, the Company entered into a Project Funding and Reimbursement Agreement (PF Agreement) with the CAB for the Sky Ranch property. The PF Agreement required the Company to fund an agreed upon list of public improvements for Sky Ranch with respect to earthwork, erosion control, streets, drainage, and landscaping at an estimated cost of \$13.2 million for calendar years 2018 and 2019. Each advance or reimbursable expense accrues interest at a rate of six percent (6%) per annum.

The Company and the Sky Ranch CAB entered into a Facilities Funding and Acquisition Agreement (FFAA) effective November 2017, obligating the company to advance funding to the Sky Ranch CAB for specified public improvements constructed from 2018 to 2023. All amounts owed under the FFAA bear interest at a rate of six percent (6%) per annum. Any advances not paid or reimbursed by the Sky Ranch CAB by December 31, 2058 for Phase 1 and December 31, 2060 for Phase 2, shall be deemed forever discharged and satisfied in full.

As of August 31, 2024, the balance of the Company's advances for improvements, including interest, net of reimbursements already received from the Sky Ranch CAB, totaled \$41.0 million. The advances have been used by the Sky Ranch CAB to pay for construction of public improvements. The Company submits specific costs for reimbursement to the Sky Ranch CAB which have been certified by an independent third-party.

Sky Ranch Metropolitan District Nos. 1, 3, 4, 5, 6, 7 and 8 (Sky Ranch Districts) and the Sky Ranch CAB are quasi-municipal corporations and political subdivisions of Colorado formed for the purpose of providing service to the Company's Sky Ranch property. The current members of the board of directors of the Rangeview District, two of the Sky Ranch Districts, and the Sky Ranch CAB consist of four employees of the Company (including the Company's CEO and CFO) and one independent board member. Sky Ranch Metropolitan District No. 1 has a board comprised of three employees of the Company (including the Company's CEO and CFO) and two independent board members.

Nelson Pipeline Constructors LLC

Through a competitive bidding process, the Sky Ranch CAB awarded Nelson Pipeline Constructors, LLC (Nelson) a contract to construct the wet utility pipelines in Phase 2A of Sky Ranch. As the project progressed, change orders were approved by the Sky Ranch CAB board upon review by an independent engineer hired by the Sky Ranch CAB to certify costs are reasonable and appropriate for the scope of work contemplated. During the years ended August 31, 2024 and August 31, 2023, the Sky Ranch CAB paid Nelson \$ 0.1 million and \$1.1 million, respectively, related to this contract. Nelson is majority owned by the chair of the Company's board of directors.

NOTE 16 – EARNINGS PER SHARE

Certain outstanding options are excluded from the diluted earnings per share calculation because they are anti-dilutive (i.e., their assumed conversion into common stock would increase rather than decrease earnings per share). No options were excluded for the fiscal years ended August 31, 2024 and 2023.

<i>(In thousands, except share and per share amounts)</i>	Year Ended	
	August 31, 2024	August 31, 2023
Net income	\$ 11,613	\$ 4,699
Basic weighted average common shares	24,083,001	24,031,068
Effect of dilutive securities	57,945	74,999
Weighted average shares applicable to diluted earnings per share	<u>24,140,946</u>	<u>24,106,067</u>
Earnings per share - basic	\$ 0.48	\$ 0.20
Earnings per share - diluted	<u>\$ 0.48</u>	<u>\$ 0.19</u>

NOTE 17 – SUBSEQUENT EVENTS

On October 21, 2024, the Company completed the purchase of approximately 432 acres of land in Weld County together with 378 acre-feet of ditch water in the Henrylyn Irrigation District and 300 acre-feet of groundwater rights in the Lost Creek Designated Basin for a purchase price of approximately \$5.4M. The purchase adds to the Company's Lost Creek Water Supply, which it plans to consolidate with its Rangeview Water Supply to provide service to the Rangeview District's customers both on and off the Lowry Ranch.

On October 30, 2024, the Sky Ranch CAB sold tax-exempt, fixed rate, investment grade senior bonds in the aggregate principal amount of \$18,585,000 and tax-exempt, fixed-rate subordinate bonds in the aggregate principal amount of \$3,307,000 (collectively, the "2024 Bonds"). Upon the issuance of the 2024 Bonds, the Company received \$10.1 million as partial reimbursement of the Company's Note Receivable from the Sky Ranch CAB for advances the Company made to the Sky Ranch CAB to fund the construction of public improvements to the Sky Ranch property.

Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

As previously reported, on September 15, 2022, we dismissed Plante & Moran, LLC as our independent registered public accounting firm and appointed Forvis Mazars, LLP (formerly known as FORVIS, LLP) as our independent registered public accounting firm for the Company's fiscal year ending August 31, 2023. The dismissal of Plante & Moran, LLC and engagement of Forvis Mazars, LLP was approved by the Audit Committee of the board of directors and the full board of directors. We filed a Current Report on Form 8-K with the Securities and Exchange Commission on September 19, 2022 announcing the change in auditors, which filing is incorporated by reference herein. Our independent registered accounting firm's report on the financial statements for each of the past two years did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the foregoing change in accountants, there was no disagreement of the type described in paragraph (a)(1)(iv) of Item 304 of Regulation S-K or any reportable event as described in paragraph (a)(1)(v) of such Item.

For more information, please refer to the Company's Current Report on Form 8-K filed on September 19, 2022.

Item 9A – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures. The President and the Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures as of August 31, 2024, pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the President and the Chief Financial Officer each concluded that, as of the end of period covered by this report, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 COSO Framework). Based on that assessment, management determined that as of August 31, 2024, our internal controls over financial reporting were effective.

Changes in Internal Controls

No changes were made to our internal control over financial reporting during the fourth quarter of our fiscal 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B – Other Information

None.

PART III

Item 10 – Directors, Executive Officers and Corporate Governance

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers and employees that is available on our website at www.purecyclewater.com. We intend to disclose any amendments to or waivers from the provisions of our Code of Business Conduct and Ethics that are applicable to our principal executive officer, principal financial officer or principal accounting officer and that relate to any element of the SEC’s definition of code of ethics by posting such information on our website, in a press release, or on a Current Report on Form 8-K.

Information required by this item will be contained in, and is incorporated herein by reference to, our definitive Proxy Statement pursuant to Regulation 14A promulgated under the Exchange Act for the Annual Meeting of Shareholders to be held in January 2024.

Item 11 – Executive Compensation

The information required by this item will be included in, and is incorporated herein by reference to, our Proxy Statement.

Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in, and is incorporated herein by reference to, our Proxy Statement.

Item 13 – Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in, and is incorporated herein by reference to, our Proxy Statement.

Item 14 – Principal Accounting Fees and Services

The information required by this item will be included in, and is incorporated herein by reference to, our Proxy Statement.

PART IV

Item 15 – Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Annual Report on Form 10-K

- (1) Financial Statements. See “Index to Consolidated Financial Statements and Supplementary Data” in *Part II, Item 8* of this Annual Report on Form 10-K.
- (2) Financial Statement Schedules. All schedules are omitted either because they are not required or the required information is shown in the consolidated financial statements or notes thereto.
- (3) Exhibits. The exhibits listed on the accompanying “Exhibit Index” are filed or incorporated by reference as part of this Annual Report on Form 10-K, unless otherwise indicated.

Item 16 – Form 10-K Summary

None.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Incorporation of the Company. Incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed on December 14, 2007.
3.2	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on May 5, 2023.
4.1	Specimen Stock Certificate. Incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2015.
4.2	Description of Capital Stock. Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2019.
10.1	Wastewater Service Agreement, dated January 22, 1997, by and between the Company and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-KSB for the fiscal year ended August 31, 1998.
10.2	Comprehensive Amendment Agreement No. 1, dated April 11, 1996, by and among Inco Securities Corporation, the Company, the Bondholders, Gregory M. Morey, Newell Augur, Jr., Bill Peterson, Stuart Sundlun, Alan C. Stormo, Beverlee A. Beardslee, Bradley Kent Beardslee, Robert Douglas Beardslee, Asra Corporation, International Properties, Inc., and the Land Board. Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-QSB for the period ended May 31, 1996.
10.3	Agreement for Sale of Export Water dated April 11, 1996 by and between the Company and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996.
10.4	Bargain and Sale Deed among the Land Board, the Rangeview Metropolitan District and the Company dated April 11, 1996. Incorporated by reference to Exhibit 10.18 to Amendment No. 1 to Registration Statement on Form SB-2, filed on June 7, 2004.
10.5	Agreement for Water Service dated August 3, 2005 among the Company, Rangeview Metropolitan District and Arapahoe County. Incorporated by reference to Exhibit 10.24 to the Current Report on Form 8-K filed on August 4, 2005.
10.6	Amendment No. 1 to Agreement for Water Service dated August 25, 2008, between the Company and Arapahoe County. Incorporated by reference to Exhibit 10.36 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2008.
10.7	Paid-Up Oil and Gas Lease dated March 14, 2011, between the Company and Anadarko E&P Company, L.P. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 15, 2011.
10.8	Surface Use and Damage Agreement dated March 14, 2011, between the Company and Anadarko E&P Company, L.P. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on March 15, 2011.
10.9	2014 Equity Incentive Plan, effective April 12, 2014. Incorporated by reference to Appendix A to the Proxy Statement for the Annual Meeting held on January 15, 2014. **
10.10	2014 Amended and Restated Lease Agreement, dated July 10, 2014, by and between the Land Board, the Rangeview Metropolitan District, and the Company. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on July 14, 2014.
10.11	2014 Amended and Restated Service Agreement, dated July 10, 2014, by and between the Company and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on July 14, 2014.
10.12	Rangeview/Pure Cycle WISE Project Financing and Service Agreement, effective as of December 22, 2014. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 30, 2014.
10.13	South Metro WISE Authority Formation and Organizational Intergovernmental Agreement, dated December 31, 2013. Incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2014.
10.14	Amended and Restated WISE Partnership – Water Delivery Agreement, dated December 31, 2013, among the City and County of Denver acting through its Board of Water Commissioners, the City of Aurora acting by and through its Utility Enterprise, and South Metro WISE Authority. Incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2014.

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<u>Exhibit Number</u>	<u>Description</u>
10.15	Agreement for Purchase and Sale of Western Pipeline Capacity, dated November 19, 2014, among the Rangeview Metropolitan District and certain members of the South Metro WISE Authority. Incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2014.
10.16	Water Service Agreement by and between Rangeview Metropolitan District, acting by and through its Water Activity Enterprise, and Elbert & Highway 86 Commercial Metropolitan District, acting by and through its Water Enterprise, dated as of December 15, 2016. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 19, 2016.
10.17	Export Service Agreement, effective as of June 16, 2017, between the Company and the Rangeview Metropolitan District. Incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2017.
10.18	Contract for Purchase and Sale of Real Estate, dated June 27, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by First Amendment to Contract for Purchase and Sale of Real Estate, dated August 28, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Second Amendment to Contract for Purchase and Sale of Real Estate, dated August 29, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Third Amendment to Contract for Purchase and Sale of Real Estate, dated September 8, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Fourth Amendment to Contract for Purchase and Sale of Real Estate, dated September 20, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Fifth Amendment to Contract for Purchase and Sale of Real Estate, dated October 6, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Sixth Amendment to Contract for Purchase and Sale of Real Estate, dated October 11, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Seventh Amendment to Contract for Purchase and Sale of Real Estate, dated October 18, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Eighth Amendment to Contract for Purchase and Sale of Real Estate, dated October 20, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Ninth Amendment to Contract for Purchase and Sale of Real Estate, dated October 20, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Tenth Amendment to Contract for Purchase and Sale of Real Estate, dated November 3, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Eleventh Amendment to Contract for Purchase and Sale of Real Estate, dated November 10, 2017, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Twelfth Amendment to Contract for Purchase and Sale of Real Estate, dated April 20, 2018, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Thirteenth Amendment to Contract for Purchase and Sale of Real Estate, dated August 9, 2018, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Fourteenth Amendment to Contract for Purchase and Sale of Real Estate, dated March 11, 2019, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc., as amended by Fifteenth Amendment to Contract for Purchase and Sale of Real Estate, dated September 26, 2019, by and between PCY Holdings, LLC and Richmond American Homes of Colorado, Inc. The Contract for Purchase and Sale of Real Estate and the First through Tenth Amendments are incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2017. The Eleventh Amendment is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2017. The Twelfth Amendment is incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2018. The Thirteenth, Fourteenth and Fifteenth Amendments are incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2019.
10.19	Contract for Purchase and Sale of Real Estate, dated June 27, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by First Amendment to Contract for Purchase and Sale of Real Estate, dated August 24, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Second Amendment to Contract for Purchase and Sale of Real Estate, dated September 19, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Third Amendment to Contract for Purchase and Sale of Real Estate, dated October 6, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Fourth Amendment to Contract for Purchase and Sale of Real Estate, dated October 13, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by

Exhibit Number	Description
10.20	<p>Fifth Amendment to Contract for Purchase and Sale of Real Estate, dated October 18, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Sixth Amendment to Contract for Purchase and Sale of Real Estate, dated October 20, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Seventh Amendment to Contract for Purchase and Sale of Real Estate, dated October 20, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Eighth Amendment to Contract for Purchase and Sale of Real Estate, dated November 3, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Ninth Amendment to Contract for Purchase and Sale of Real Estate, dated November 7, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Tenth Amendment to Contract for Purchase and Sale of Real Estate, dated November 10, 2017, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Eleventh Amendment to Contract for Purchase and Sale of Real Estate, dated March 27, 2018, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Twelfth Amendment to Contract for Purchase and Sale of Real Estate, dated April 10, 2018, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Thirteenth Amendment to Contract for Purchase and Sale of Real Estate, dated August 9, 2018, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc., as amended by Fourteenth Amendment to Contract for Purchase and Sale of Real Estate, dated July 19, 2019, by and between PCY Holdings, LLC and Taylor Morrison of Colorado, Inc. The Contract for Purchase and Sale of Real Estate and the First through Ninth Amendments are incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2017. The Tenth Amendment is incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2017. The Eleventh and Twelfth Amendments are incorporated by reference to Exhibits 10.1 and 10.2, respectively, to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2018. The Thirteenth and Fourteenth Amendments are incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2019.</p> <p>Contract for Purchase and Sale of Real Estate, dated June 29, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by First Amendment to Contract for Purchase and Sale of Real Estate, dated August 28, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Second Amendment to Contract for Purchase and Sale of Real Estate, dated September 15, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Third Amendment to Contract for Purchase and Sale of Real Estate, dated September 28, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Fourth Amendment to Contract for Purchase and Sale of Real Estate, dated October 9, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Fifth Amendment to Contract for Purchase and Sale of Real Estate, dated October 18, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Sixth Amendment to Contract for Purchase and Sale of Real Estate, dated October 20, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Seventh Amendment to Contract for Purchase and Sale of Real Estate, dated October 31, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Eighth Amendment to Contract for Purchase and Sale of Real Estate, dated November 3, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Ninth Amendment to Contract for Purchase and Sale of Real Estate, dated November 7, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Tenth Amendment to Contract for Purchase and Sale of Real Estate, dated November 10, 2017, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Eleventh Amendment to Contract for Purchase and Sale of Real Estate, dated March 29, 2018, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Twelfth Amendment to Contract for Purchase and Sale of Real Estate, dated January 22, 2019, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Thirteenth Amendment to Contract for Purchase and Sale of Real Estate, dated April 18, 2019, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Fourteenth Amendment to Contract for Purchase and Sale of Real Estate, dated May 21, 2019, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Fifteenth Amendment to Contract for Purchase and Sale of Real Estate, dated February 20, 2021, by and between PCY Holdings, LLC and KB Home Colorado Inc., as amended by Sixteenth Amendment to Contract for Purchase and Sale of Real Estate, dated April 30, 2021, by and between PCY Holdings, LLC and KB Home Colorado Inc. The Contract for Purchase and Sale of Real Estate and the First through Ninth Amendments are incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2017. The Tenth Amendment is incorporated by</p>

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<u>Exhibit Number</u>	<u>Description</u>
	reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2017. The Eleventh Amendment is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019. The Twelfth Amendment is incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019. The Thirteenth Amendment is incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019. The Fourteenth Amendment is incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019. The Fifteenth Amendment is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended February 29, 2020. The Sixteenth Amendment is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2020
10.21	Contract for Purchase and Sale of Real Estate, dated October 30, 2020, by and between PCY Holdings, LLC and KB Home Colorado, Inc., Incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2020.
10.22	Contract for Purchase and Sale of Real Estate, dated November 2, 2020, by and between PCY Holdings, LLC and Meritage Homes of Colorado, Inc., Incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2020.
10.23	Contract for Purchase and Sale of Real Estate, dated November 2, 2020, by and between PCY Holdings, LLC and Challenger Denver, LLC., Incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2020.
10.24	Contract for Purchase and Sale of Real Estate, dated October 30, 2020, by and between PCY Holdings, LLC and Melody Homes, Inc. (a wholly-owned subsidiary of DR Horton, Inc.), Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K for the fiscal year ended August 31, 2020.
10.25	Contract for Purchase and Sale of Real Estate, dated February 19, 2021, by and between PCY Holdings, LLC and Lennar Colorado, LLC, Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 22, 2021.
10.26	Pure Cycle Corporation 2024 Equity Incentive Plan. Incorporated by Reference to Exhibit 10.1 to the current report on Form 8-K filed January 19, 2024.**
10.27	Option Agreement, dated January 30, 2024, by and among the Land Board, the Rangeview Metropolitan District, and the Company. *
21.1	Subsidiaries *
23.1	Consent of Forvis Mazars, LLP *
24.1	Powers of Attorney (included on the Signatures page of this Annual Report on Form 10-K)*
31.1	Certification of principal executive officer under Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of principal financial officer under Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***
32.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***
97.1*,**	Clawback Policy
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document. *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. *
104	Cover page formatted as inline XBRL and contained in Exhibit 101

* Filed herewith

** Indicates management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.

*** Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PURE CYCLE CORPORATION

/s/ Marc S. Spezialy

Marc S. Spezialy
Vice President and Chief Financial Officer
November 13, 2024

POWERS OF ATTORNEY

Each person whose signature appears below constitutes and appoints Mark W. Harding and Marc S. Spezialy, jointly and severally, as such person's attorneys-in-fact, each with the power of substitution, for such person in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Mark W. Harding</u> Mark W. Harding	President, Chief Executive Officer and Director (Principal Executive Officer)	November 13, 2024
<u>/s/ Marc S. Spezialy</u> Marc S. Spezialy	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 13, 2024
<u>/s/ Patrick J. Beirne</u> Patrick J. Beirne	Chair, Director	November 13, 2024
<u>/s/ Wanda J. Abel</u> Wanda J. Abel	Director	November 13, 2024
<u>/s/ Frederick A. Fendel III</u> Frederick A. Fendel III	Director	November 13, 2024
<u>/s/ Susan D. Heitmann</u> Susan D. Heitmann	Director	November 13, 2024
<u>/s/ Daniel R. Kozlowski</u> Daniel R. Kozlowski	Director	November 13, 2024
<u>/s/ Jeffrey G. Sheets</u> Jeffrey G. Sheets	Director	November 13, 2024

Transaction Coversheet

Effective Date: January 30, 2024

Board Order Number: 2023-051

Contacts:

Optionee:

Rangeview Metropolitan District

Mark Harding
34501 E. Quincy Ave., Bldg. 65, Ste. A
Watkins, CO 80137
Email: MHarding@PureCycleWater.com

with copies to:

Wanda J. Abel
Davis Graham & Stubbs LLP
1550 17th Street, Suite 500
Denver, CO 80202
Email: wanda.abel@dgsllaw.com

Board:

Justin Bieri
Water Program Manager
State Board of Land Commissioners
1127 Sherman Street, Suite 300
Denver, CO 80203

With a copy to:

Ed Hamrick
Assistant Attorney General
Natural Resources & Environment Section
Colorado Department of Law
Ralph L. Carr Colorado Judicial Center
1300 Broadway, 7th Floor
Denver, Colorado 80203

OPTION AGREEMENT

This Option Agreement ("**Option Agreement**") is entered on the 30 day of January 2024, ("**Effective Date**") among the STATE OF COLORADO, acting by and through the STATE BOARD OF LAND COMMISSIONERS, or its representatives or agents ("**Board**"), whose address is 1127 Sherman Street, Suite 300, Denver, CO 80203-2206, Rangeview Metropolitan District, a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water activity enterprise ("**Rangeview**"), and Pure Cycle Corporation, a Colorado corporation ("**Pure Cycle**"; Pure Cycle and Rangeview, individually or collectively, as the context may require, "**Optionee**") (each a "**Party**" and collectively the "**Parties**").

RECITALS

- A. In 1982, the Board issued a 99-year lease to OAR Inc. for the development and use of the water under and on the majority of Lowry Range in Arapahoe County. Rangeview acquired the lease from OAR Inc. in 1986. In 2014, the Board, Rangeview, and Pure Cycle Corporation ("**Pure Cycle**") amended and restated the lease between the Board and Rangeview and added Pure Cycle as a party (the "**2014 Amended and Restated Lease**").
- B. OAR Inc. entered into a 50-year lease with East Cherry Creek Valley Water and Sanitation District ("**ECCV**") dated July 8, 1983 (the "**ECCV Lease**"). The ECCV Lease allows ECCV to develop the infrastructure necessary to pump up to 4,000 acre-feet of Denver Basin groundwater from the Arapahoe aquifer below the Lowry Range each year during the term of the ECCV Lease.
- C. Rangeview and ECCV entered a water purchase agreement dated May 1, 2012 (the "**Water Purchase Agreement**"). The Water Purchase Agreement grants Rangeview a license to use the ECCV System (consisting of certain equipment and improvements owned and held by ECCV within the Lowry Range to produce groundwater pursuant to the ECCV Lease to deliver water to ECCV customers) and the exclusive right to purchase water produced by the ECCV System (except 260 acre feet reserved by ECCV to supply the City of Aurora). In return, Rangeview operates and maintains the ECCV System on behalf of ECCV and pays ECCV for the water produced by Rangeview from the ECCV System. The ECCV System includes eight Arapahoe aquifer wells, pipelines, electrical and control equipment, easements, means for access and ancillary facilities, equipment, and rights.
- D. The ECCV Lease expires July 8, 2032, and all interest in the water and the ECCV System automatically revert to the Board.
- E. Pursuant to Board Order No. 2023-051 dated November 8, 2023, the Board has determined that it is in the best interest of the trusts it administers to enter into an option and lease agreement with Optionee that, if exercised, would result in an amendment to the 2014 Amended and Restated Lease to add the Lowry ECCV System and the 4,000 acre-feet of Arapahoe aquifer groundwater subject to the ECCV Lease to the assets leased by Rangeview under the 2014 Amended and Restated Lease.

AGREEMENT

NOW THEREFORE, the Parties incorporate the recitals above and agree as follows:

Option Agreement

1. Option Fee. Optionee shall pay to the Board \$500,000.00 (“**Option Fee**”) in 10 equal payments of \$50,000.00 (“**Option Fee Payment**”). The first Option Fee Payment will be due on the Effective Date of this Option Agreement. Each future Option Fee Payment will be due on the 1st of May each year starting May 1, 2024. If Optionee does not pay the Option Fee Payment when due, the Option shall terminate.
2. Option to Lease. The Board grants to Optionee the exclusive option to lease the ECCV System and the 4,000 acre-feet of Arapahoe aquifer groundwater subject to the ECCV Lease (the “**ECCV Water**,” together with the ECCV System, the “**State Property**”) upon expiration of the ECCV Lease on July 8, 2032 (“**Option**”).
3. Exercise and Period of Option.
 - 3.1 Optionee may exercise the Option by giving written notice to the Board of its exercise of the Option as provided in this Option Agreement and making the final Option Fee Payment due, on May 1, 2032. Optionee may not exercise the Option if the 2014 Amended and Restated Lease is terminated on or before July 8, 2032. If the 2014 Amended and Restated Lease is terminated, this Option Agreement shall be null and void and this Option Agreement shall terminate automatically and neither party shall owe any further obligation to the other under this Option Agreement after such termination.
 - 3.2 Optionee may exercise the Option early by giving written notice to the Board of its exercise of the Option as provided in this Option Agreement and making the full payment of any unpaid portion of the Option Fee. Optionee may not exercise the Option if the 2014 Amended and Restated Lease is terminated on or before its exercise of the Option. If the 2014 Amended and Restated Lease is terminated on or before July 8, 2032, this Option Agreement, the Option, and any exercise of the Option, shall be null and void and this Option Agreement shall terminate automatically and neither party shall owe any further obligation to the other under this Option Agreement, the Option, or any exercise of the Option after such termination.
4. Option Fee Non-refundable. The Option Fee is non-refundable except in the event of Board default.
5. Assignment. This Option Agreement may not be assigned except to a permitted assignee of such Party’s interest in the 2014 Amended and Restated Lease.

Lease Amendment

6. 2014 Amended and Restated Lease Amended. Provided the Option is exercised, effective as of July 8, 2032, the 2014 Amended and Restated Lease is hereby amended as specifically provided in Exhibit A attached hereto (the “**Lease Amendment**”). The Lease Amendment shall be attached as Exhibit N to the 2014 Amended and Restated Lease.

General Provisions

7. Nature of State Property; Disclaimer of Representations and Warranties. To the maximum extent permitted by law, Optionee will take the State Property “AS IS”, including any and all faults and preexisting conditions, and will bear all risk of loss or damage to the State Property occurring after the execution of this Option Agreement. Optionee acknowledges and agrees that the Board has not made, does not make, and specifically negates and disclaims any

representations, warranties, promises, covenants, agreements, or guaranties of any kind or character whatsoever, whether express or implied, verbal or written, past, present, or future, of, as to, concerning, or with respect to the State Property including, but not limited to: (1) the value, nature, quality, reliability, longevity, or condition of the State Property, including, without limitation, the water, soil, mechanics, and geology; (2) the income to be derived from the State Property; (3) the suitability of the State Property for any and all activities and uses which Optionee may conduct thereon; (4) the compliance of or by the State Property or its operation with any laws, rules, ordinances, or regulations of any applicable governmental authority or body; (5) the habitability, merchantability, marketability, profitability, or fitness for a particular purpose of the State Property; (6) private or public rights of access over, through, or across the State Property; (7) the sustainability of any groundwater aquifer; or (8) any other matter with respect to the State Property. The Board specifically disclaims any representations regarding compliance with any environmental protection, pollution, or land use laws, rules, regulations, orders, or requirements, including solid waste and water quality, or the disposal or existence, in or on the State Property, of any asbestos, any hazardous substance (as defined in 42 U.S.C. § 9601(14)), any hazardous waste (as defined in 42 U.S.C. § 6903(5)), or any petroleum (as defined in 42 U.S.C. § 6991(8)).

8. Information Provided by Board. Optionee further acknowledges and agrees that any information provided or to be provided by or on behalf of the Board with respect to the State Property was obtained from a variety of sources and that the Board has not made any independent investigation or verification of such information and makes no representations as to the accuracy or completeness of such information. The Board is not liable or bound in any manner by any verbal or written statements, representations, or information pertaining to the State Property, or the operation thereof, furnished by any real estate broker, agent, employee, servant, or other person. Any information, documentation, or products relating to the State Property are provided out of courtesy and not obligation.
9. Conditions to Exercise of Option. In addition to any conditions outlined elsewhere in this Option Agreement, Optionee's right to exercise the Option is subject to the satisfaction of the following conditions:
 - 9.1 Satisfaction of Conditions for Option Agreement. The Board and Optionee must have performed, satisfied, and complied with all the covenants, agreements, and conditions required by this Option Agreement to be performed or complied with by the Board and Optionee on or before the exercise date.
 - 9.2 Satisfaction of Conditions for Lease Amendment. The Board and Optionee must have performed, satisfied, and complied with all the covenants, agreements, and conditions required by this Option Agreement to be performed or complied with by the Board and Optionee on or before July 8, 2032. The 2014 Amended and Restated Lease must be in good standing with no outstanding breach or failure to perform on the part of the Optionee; provided, however, that (i) if a breach is still subject to an applicable cure right, the Optionee shall still have the benefit of that cure right and the Lease Amendment shall become effective on the date of the cure, and (ii) if a breach has been alleged by the Board, but is being contested in good faith by the Optionee or its Service Provider, the Lease Amendment shall take effect on July 8, 2032, without regard to the alleged breach.
10. Compliance with Laws. The Board's obligation to comply with this Option Agreement resulting from the exercise of the Option is subject to compliance with all applicable laws of the State of Colorado. If the Board is unable to comply with this Option Agreement resulting from the exercise of the Option in compliance with the laws of the State of Colorado and advises

Optionee of such fact, the Option Fee will be returned to Optionee, and this Option Agreement will terminate without any costs or recourse against the Board.

11. Default

11.1 Optionee's Default. The failure of the Optionee, without the right to do so, to comply with its obligations under this Option Agreement will be deemed a default. Upon the occurrence of a default, the Board must give the Optionee written notice of the default, and the Optionee must be allowed ten (10) days from the Optionee's receipt of such notice to cure the default. If the Optionee fails to cure the default within the cure period, the Board may terminate this Option Agreement and retain the Option Fee. In no event will Optionee be able to claim offset or credit or recover for improvements made to the State Property.

11.2 The Board's Default. The failure of the Board, without the right to do so, to comply with its obligations under this Option Agreement or to execute the Lease Amendment contemplated by this Option Agreement will be deemed a default. Upon the occurrence of a default, the Optionee must give the Board written notice of the default, and the Board must be allowed ten (10) days from the Board's receipt of such notice to cure the default. If the Board fails to cure the default within the cure period, Optionee may either pursue a claim for specific performance or terminate this Option Agreement and the Option Fee will be returned to Optionee. In no event will Optionee be able to claim offset or credit. Optionee will have no other remedy at law or in equity for the Board's default and Optionee expressly waives the remedy of damages.

12. Parties in Interest. Nothing in this Option Agreement, express or implied, is intended to confer upon any other person any rights or remedies under or by reason of this Option Agreement, nor is anything in this Option Agreement intended to create any third-party beneficiary status in any other party, except as this Option Agreement clearly and expressly states.

13. Entire Agreement. This Option Agreement, including Exhibit A attached hereto, represents the entire agreement between the Board and Optionee relating to the option to lease the State Property and supersedes any and all prior agreements, understandings, representations, and statements between the Parties, whether oral or written, and whether by a Party or such Party's legal counsel. The Board and Optionee are entering into this Option Agreement based solely on the representations and warranties in this Option Agreement and not based on any other promises, representations, and/or warranties. No modification, waiver, amendment, discharge, or change of this Option Agreement will be valid unless the same is in an appropriate written instrument duly executed by the Parties.

14. Statutory References. Any reference to any statutes or laws or regulations thereunder will include any and all amendments, modifications, or replacements of the specific sections and provisions concerned.

15. Time. In the event the last day permitted for the performance of any act required or permitted under this Option Agreement falls on a holiday or other non-business day, the time for such performance will be extended to the next succeeding business day. Time periods under this Option Agreement will exclude the first day and include the last day of such time period. All periods of time specified in this Option Agreement shall be counted in calendar days unless otherwise expressly stated. The terms "holiday" or "non-business day" shall mean those dates upon which nationally chartered banks of the United States of America operating in the State of Colorado are not open for business or those dates that are designated as a state holiday under the laws of the State of Colorado.

16. Notice. All notices required or permitted under this Option Agreement must be in writing and must be served on the Parties at the following address:

Any Notice to the Optionee must be addressed:

Rangeview Metropolitan District

Mark Harding
34501 E. Quincy Ave., Bldg. 65, Ste. A
Watkins, CO 80137
Email: MHarding@PureCycleWater.com

with copies to:

Wanda J. Abel
Davis Graham & Stubbs LLP
1550 17th Street, Suite 500
Denver, CO 80202
Email: wanda.abel@dgsllaw.com

Any Notice to the Board must be addressed:

Justin Bieri
Water Program Manager
State Board of Land Commissioners
1127 Sherman Street, Suite 300
Denver, CO 80203
Email: justin.bieri@state.co.us

with a copy to:

Ed Hamrick
Assistant Attorney General
Natural Resources & Environment Section
Colorado Department of Law
Ralph L. Carr Colorado Judicial Center
1300 Broadway, 7th Floor
Denver, Colorado 80203
Email: ed.hamrick@coag.gov

Any notices must be either (1) sent postage prepaid by certified U.S. mail, return receipt requested, in which case notice will be deemed received on the first day that delivery was attempted as shown on the return receipt; (2) sent overnight by a nationally recognized overnight courier, in which case it will be deemed received one business day after deposit with such courier; (3) personally delivered, in which case notice will be deemed received on the same day such notice is so delivered, or (4) via electronic mail, in which case it will be deemed received one business day after being sent. The above addresses may be changed by written notice to the other Party; provided however, that no notice of a change of address will be effective until actual receipt of such notice by the other Party. Copies of notices are for informational purposes only, and a failure to give or receive copies of any notice will not be deemed a failure to give notice.

17. Colorado Open Records Act ("CORA") Disclosure. To the extent not prohibited by federal law, this Option Agreement and the performance measures, if any, are subject to public release through CORA, §24-72-200.0, C.R.S., et seq.
18. Governing Law and Venue. This Option Agreement will be interpreted, executed, and enforced in accordance with the laws of the State of Colorado and rules and regulations issued pursuant thereto. Any provision included or incorporated in this Option Agreement by reference which conflicts with said laws, rules, and regulations shall be null and void. All suits or actions related to this Option Agreement shall be filed and proceedings held in the State of Colorado and exclusive venue shall be in the City and County of Denver.
19. Survival of Option Agreement Provisions. To the extent that any provisions of this Option Agreement require performance to be completed after exercise of the Option, such provisions will survive the exercise of the Option and be binding upon the Parties and will not merge into the 2014 Amended and Restated Lease in accordance with this Option Agreement. All agreements and covenants by the Parties contained in this Option Agreement, which the Party to whom performance is owed could reasonably expect to be intended to survive any exercise of the Option, will survive the exercise and not merge with the 2014 Amended and Restated Lease.
20. Counterparts. This Option Agreement may be executed in any number of counterparts, which together shall constitute one Option Agreement. Signatures required in this Option Agreement shall be original "wet" handwritten signatures. Executed signature pages may be delivered using pdf or similar file type transmitted via electronic mail, cloud-based server or other similar electronic means. Any such transmittal shall constitute delivery of the executed Option Agreement, with signatures binding on the parties as if they were originals. Or signatures may be delivered by DocuSign or similar record system approved by the State of Colorado.
21. Full and Accurate Disclosure. No representation or warranty by Optionee made in this Option Agreement or in connection with the Option Agreement contains or will contain any untrue statement of material fact or omits to state a material fact necessary to make the Optionee's statements contained in this Option Agreement or in connection with the Option Agreement accurate or not misleading.
22. Jury Waiver. THE PARTIES EXPRESSLY WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY OR AGAINST EITHER OF THEM RELATING TO THIS OPTION AGREEMENT AND AGREE THAT ANY DISPUTE BE RESOLVED BY A JUDGE APPLYING APPLICABLE LAW.
23. Termination in the Public Interest. The State is entering into this Option Agreement for the purpose of carrying out the public policy as determined by its Governor, General Assembly, and Courts. If this Option Agreement ceases to further the public policy of the State, the Board, acting in accordance with CRS § 24-106-101(3)(d) and under direction of its Governor, Assembly, or Courts, may terminate this Option Agreement in whole or in part. The right of the State to terminate this this Option Agreement because it ceases to further public policy is not the equivalent of, and shall not permit the State to, terminate for convenience. Exercise by the Board of this right shall not be deemed a breach of its obligations of this Option Agreement. In such event, the Board shall provide Optionee written notice, as provided in §20 at least 30 days prior to the desired termination date and return the Option Fee to the Optionee.

24. Binding Effect. This Option Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

25. State of Colorado Special Provisions.

25.1 Fund Availability CRS §24-30-202(5.5). Financial obligations of the Board and the State payable after the current fiscal year are contingent upon funds for that purpose being appropriated, budgeted, and otherwise made available.

25.2 Governmental Immunity. Liability for claims for injuries to persons or property arising from the negligence of the State, its departments, agencies, boards, commissions, committees, bureaus, offices, employees and officials shall be controlled and limited by the provisions of the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S.; the Federal Tort Claims Act, 28 U.S.C. Pt. VI, Ch. 171 and 28 U.S.C. 1346(b), and the State's risk management statutes, §§24-30-1501, et seq. C.R.S. No term or condition of this Option Agreement shall be construed or interpreted as a waiver, express or implied, of any of the immunities, rights, benefits, protections, or other provisions, contained in these statutes.

25.3 Non-Agency and Non-Employment. Neither Optionee nor any agent or employee of Optionee shall be deemed to be an agent or employee of the State. Optionee shall not have authorization, express or implied, to bind the State to any agreement, liability, or understanding, except as expressly set forth in this Option Agreement. Optionee and its employees and agents are not entitled to unemployment insurance or workers compensation benefits through the State and the State shall not pay for or otherwise provide such coverage for Optionee or any of its agents or employees. Optionee shall pay when due all applicable employment taxes and income taxes and local head taxes incurred pursuant to this Option Agreement. Optionee shall (i) provide and keep in force workers' compensation and unemployment compensation insurance in the amounts required by law, (ii) provide proof thereof when requested by the State, and (iii) be solely responsible for its acts and those of its employees and agents.

25.4 Compliance with Law. Optionee shall strictly comply with all applicable federal and State laws, rules, regulations, applicable water court decrees, Division of Water Resources rules, policies, notices, and guidelines in effect or hereafter established, including, without limitation, laws applicable to discrimination and unfair employment practices.

25.5 Prohibited Terms. Any term included in this Option Agreement that requires the Board or the State to indemnify or hold Optionee harmless; requires the Board or the State to agree to binding arbitration; limits Optionee's liability for damages resulting from death, bodily injury, or damage to tangible property; or that conflicts with this provision in any way shall be void ab initio. Nothing in this Option Agreement shall be construed as a waiver of any provision of C.R.S. §24-106-109.

25.6 Employee Financial Interest/Conflict of Interest. CRS §§24-18-201 and 24-50-507. The signatories aver that to their knowledge, no employee of the Board or the State has any personal or beneficial interest whatsoever in the service or property described in this Option Agreement. Optionee has no interest and shall not acquire any interest, direct or indirect, that would conflict in any manner or degree with the performance of Optionee's services and Optionee shall not employ any person having such known interests.

(Signatures on following page)

EXHIBIT A TO OPTION AGREEMENT
EXHIBIT N TO 2014 AMENDED AND RESTATED LEASE AGREEMENT
Lease Amendment

This Lease Amendment (“Lease Amendment”) is attached as Exhibit A to that certain Option Agreement dated January __, 2024, among the State of Colorado, acting by and through its State Board of Land Commissioners (“Land Board”), Rangeview Metropolitan District (“Rangeview”), a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its water activity enterprise, and Pure Cycle Corporation, a Colorado corporation (“Pure Cycle”), and is attached as Exhibit N to the 2014 Amended and Restated Lease Agreement, Lease No. S-37280, dated July 10, 2014, among the Parties.

Upon exercise of the Option Agreement and the expiration of the East Cherry Creek Agreement on July 8, 2032 (at which time the Land Board automatically acquires all interests in the water, infrastructure, and leased premises related to the East Cherry Creek Agreement), this Lease Amendment is effective as of July 8, 2032.

AGREEMENT

NOW, THEREFORE, inconsideration of the foregoing and the promises hereinafter stated to be kept and performed by the Parties, their successors and assigns, the Parties agree as follows:

1. Conflict; Interpretation. Except as specifically modified by this Lease Amendment, all terms used in this Lease Amendment that are defined in the 2014 Amended and Restated Lease shall be construed and interpreted in accordance with the 2014 Amended and Restated Lease. This Lease Amendment is incorporated by reference into the 2014 Amended and Restated Lease. In the event of any conflict, inconsistency, variance, or contradiction between the provisions of this Lease Amendment and any of the provisions of the 2014 Amended and Restated Lease, the provisions of this Lease Amendment shall in all respects supersede, govern, and control.
2. Lease Term. This Lease Amendment shall be in full force and effect effective as of July 8, 2032, and shall last through the same date as any termination of the 2014 Amended and Restated Lease.
3. 2014 Amended and Restated Lease Modifications. Effective as of July 8, 2032, the 2014 Amended and Restated Lease shall be specifically modified as follows:
 - 3.1 Definitions.
 - (a) The following definition in Article 1 of the 2014 Amended and Restated Lease shall be amended by deleting the text struck out below:

“Non-Export Water” shall be defined to mean the Water Rights other than (i) the Export Water and (ii) the water subject to the East Cherry Creek Agreement .
 - (b) A following new definitions shall be added to Article 1:

“ECCV Water” shall mean the 4,000 acre feet of Denver Basin groundwater from the Arapahoe Aquifer under the Lowry Range previously allocated annually to the East Cherry Creek Agreement.

“ECCV System” shall mean the equipment and improvements previously owned and held by ECCV within the Lowry Range to produce groundwater pursuant to the East Cherry Creek Agreement to deliver water to ECCV customers, including eight wells, pipelines, electrical and control equipment, easements, means for access and ancillary facilities, equipment, and rights.

- 3.2 Article 5, Section 5.1. The first paragraph of Section 5.1 of Article 5 shall be amended by adding the text shown as underlined below:

5.1 Grant. Subject to the terms, conditions and limitations set forth in this Agreement, the Land Board hereby leases to Rangeview the right and privilege during the term of this Agreement to divert and put to beneficial use all water on and under the surface of the Lowry Range, including the ECCV Water and including all rights to the first use, reuse, successive use and disposition of such water, together with the right to use as much of the surface and underground portions of the Lowry Range as provided in Article 11 of this Agreement as may be reasonably required in the exercise of the rights granted by this Agreement, including, in accordance with commercially reasonable and prudent water provider practice in Colorado, the right to drill and build wells, construct buildings (except office and other such buildings not directly necessary for the extraction and transportation of water), make excavations, stockpiles, dumps, drains, roads, power lines, pipelines, and other improvements (all such activity hereinafter being referred to as “Construction”), but only as may be reasonably necessary for the development and delivery of the water pursuant to this Agreement. The foregoing items exclusive of the reservations set forth below are collectively referred to as the “Water Rights.”

- 3.3 Article 7, Section 7.1(b). The Section 7.1(b) of Article 7 shall be amended by adding the text shown as underlined below and deleting the text shown as struck out below:

On or before May 1 of each year, beginning with May 1, 2015, until this Agreement expires or otherwise terminates, Rangeview, or its Service Provider shall pay the Land Board \$10 per acre-foot of Non-Export Water designated for use Off-Site other than ECCV water (collectively, the “Minimum Annual Water Production Payments”). The Parties intend that the Non-Export Water designated for use Off-Site will consist of all Water Rights (including ECCV Water) less the Export Water, ~~the water reserved to ECCV~~ and the water reserved to the Land Board; however, ECCV Water shall not be subject to the Minimum Annual Production Payments required by this Section 7.1(b) and instead rent shall be paid for ECCV Water as set forth in Section 7.8. The Parties and agree that Non-Export Use Water designated for use Off-Site (other than ECCV Water) will be as more specifically identified on Exhibit J attached hereto. The Minimum Annual Water Production Payments shall serve as prepaid royalties against future production and shall be forfeited to the Land Board if no royalties are paid by Rangeview or its Service Provider to the Land Board for the sale or other disposition of the Export Water or Non-Export Water in excess of the aggregate amount of the Minimum Annual Water Production Payments prior to the expiration or termination of the Agreement.

3.4 Article 7, Section 7.8. Article 7 shall be amended to add a new Section 7.8 as follows:

7.8 Monthly ECCV Water Rent and Royalty. Rangeview shall pay monthly rent (“ECCV Rent”) in the amount of Five Thousand Dollars (\$5,000.00) to the Land Board commencing on July 8, 2032, and thereafter on or before the 8th day of each month until this Agreement expires. Commencing on July 8th, 2033, and on July 8th of each successive year, the ECCV Rent shall increase by three percent (3%). In addition to ECCV Rent, Rangeview shall pay royalties for ECCV Water as provided under Section 7.2 for Off-Site Water and under Section 7.3 for Non-Export Water for use on the Lowry Range.

3.5 Article 10, Section 10.1. The Land Board automatically acquired all interests in the water, infrastructure, and leased premises related to the East Cherry Creek Agreement on July 8, 2032, free and clear of this Agreement; therefore, Section 10.1 of Article 10 shall no longer be of any force or effect and is deleted in its entirety and replaced with the following:

10.1 Expiration. The East Cherry Creek Agreement expired on July 8, 2032.

3.6 Article 10, Section 10.2. Section 10.2 of Article 10 is deleted in its entirety.

3.7 Article 10, new Section 10.3. Article 10 is amended to add a new Section 10.3 as follows:

10.3 2024 Lease Amendment. The Land Board and Rangeview entered into an Option Agreement and a Lease Amendment on January __, 2024, related to the water, infrastructure, and leased premises addressed in the East Cherry Creek Agreement (“**2024 Amendment**”). The 2024 Amendment is attached hereto as **Exhibit N**. The 2024 Amendment adds the ECCV System and the ECCV Water to the assets leased by Rangeview under this Agreement.

3.8 Article 10, new Section 10.4. Article 10 is amended to add a new Section 10.4 as follows:

10.4 Infrastructure. Rangeview and the Service Provider shall have the right to operate and maintain the ECCV System for the term of this Agreement. Rangeview or its Service Provider shall operate and maintain the ECCV System in a commercially reasonable manner consistent with prudent water provider practice in Colorado, and such system shall be treated as infrastructure in accordance with all applicable provisions of this Agreement, including Articles 8 and 14. If Rangeview replaces any well that is part of the ECCV System, Rangeview or its Service Provider, as applicable, is solely responsible for following all well construction permit requirements of the Division of Water Resources, including the requirement to plug and abandon the original well.

3.9 Article 13, Section 13.2(a). The second to last sentence of Section 13.2(a) is amended by deleting the text shown as struck out below:

In the event of such termination, Rangeview and its Service Provider shall surrender and peacefully deliver to the Land Board the above described land and the Non-Export Water, and such land as was in Rangeview’s possession or control shall be returned to the Land Board in good condition (subject to any existing licenses related to the delivery of Export Water), and the Land Board

shall be entitled to the return of all Non-Export Water, plus the title to all infrastructure built to divert or withdraw and deliver Non-Export water and any other interest in shared facilities for use with the Non-Export Water, plus the revenue stream associated with such Non-Export Water **and the East Cherry Creek Agreement**, and the reserves required to be maintained by Rangeview pursuant to Section 8.9.

- 3.10 Article 14, Section 14.1. The last sentence of Section 14.1 is amended by deleting the text shown as struck out below:

Title to improvements and rights of way on the Lowry Range for the sale of the use of Export Water **including, without limitation, the East Cherry Creek Agreement**, shall not be affected by termination of this Agreement.

4. Effect of Amendment. Except as amended hereby, the 2014 Amended and Restated Lease remains in full force and effect.

SUBSIDIARIES

PCY Holdings, LLC, a Colorado limited liability company
PCY-DT, LLC, a Colorado limited liability company
PCYO Home Rentals, LLC, a Colorado limited liability company

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement of Pure Cycle Corporation on Form S-3 (File No. 333-195733, 333-278717), of our report dated November 13, 2024, with respect to our audit of the consolidated financial statements of Pure Cycle Corporation, included in this Annual Report on Form 10-K for the year ended August 31, 2024.

/s/ Forvis Mazars, LLP
Denver, Colorado
November 13, 2024

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark W. Harding, certify that:

1. I have reviewed this annual report on Form 10-K 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 consolidated 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 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 consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions 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: November 13, 2024

/s/ MARK W. HARDING

Mark W. Harding
Principal Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marc S. Spezialy, certify that:

1. I have reviewed this annual report on Form 10-K 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 consolidated 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 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 consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions 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: November 13, 2024

/S/ MARC S.SPEZIALY

Marc S. Spezialy
Principal Financial Officer

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

I, Mark W. Harding, President and Chief Executive Officer of Pure Cycle Corporation (the "Company"), hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report of the Company on Form 10-K for the annual period ended August 31, 2024, 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 such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ MARK W. HARDING

Mark W. Harding
Principal Executive Officer
November 13, 2024

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

I, Marc S. Spezialy, Chief Financial Officer of Pure Cycle Corporation (the "Company"), hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report of the Company on Form 10-K for the annual period ended August 31, 2024 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 such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ MARC S. SPEZIALY

Marc S. Spezialy
Principal Financial Officer
November 13, 2024

PURE CYCLE CORPORATION

CLAWBACK POLICY

1. Introduction.

The Board of Directors (**Board**) of Pure Cycle Corporation (**Company**) believes it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company's compensation philosophy. The Board has therefore adopted this policy which provides for the recovery of erroneously awarded incentive compensation in the event the Company is required to restate its publicly filed financial statements due to material noncompliance of the Company with financial reporting requirements under the federal securities laws (**Policy**). This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934, as amended (**Exchange Act**), related rules and the listing standards of the national securities exchange on which the Company's securities are listed.

2. Administration.

This Policy shall be administered by the Board or, if so designated by the Board, the Compensation Committee, in which case references herein to the Board shall be deemed references to the Compensation Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

3. Covered Executives.

Unless and until the Board determines otherwise, for purposes of this Policy, the term "**Covered Executive**" means a current or former employee who is or was identified by the Company as an "Officer" pursuant to Rule 16a-1(f) of the Exchange Act. Covered Executives will include at minimum the executive officers identified by the Company pursuant to Item 401(b) of Regulation S-K of the Exchange Act.

This Policy covers Incentive Compensation received by a person after beginning service as a Covered Executive and who served as a Covered Executive at any time during the performance period for that Incentive Compensation.

4. Recovery: Accounting Restatement.

In the event the Company is required to file a restatement of its publicly disseminated financial statements as filed with the Securities and Exchange Commission (**SEC**) due to the Company's material noncompliance with any financial reporting requirements under the federal securities laws (including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period) (**Accounting Restatement**), the Company will recover reasonably promptly any excess Incentive Compensation received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, including transition periods resulting from a change in the Company's fiscal year as provided in Rule 10D-1 of the Exchange Act. Incentive Compensation is deemed "received" in the Company's fiscal period during which the financial reporting measure specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period. The determination of the time when the Company is "required" to prepare an Accounting Restatement shall be made in accordance with applicable SEC and national securities exchange rules and regulations.

(a) Definition of Incentive Compensation.

For purposes of this Policy, “Incentive Compensation” means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a financial reporting measure, including, for example, bonuses or awards under the Company’s short and long-term incentive plans, grants and awards under the Company’s equity incentive plans, and contributions of such bonuses or awards to the Company’s deferred compensation plans or other employee benefit plans that are not tax-qualified plans. For avoidance of doubt, Incentive Compensation that is deferred (either mandatorily or voluntarily) under the Company’s qualified and non-qualified deferred compensation plans, as well as any matching amounts and earnings thereon, are subject to this Policy. Incentive Compensation does not include awards which are granted, earned and vested without regard to attainment of financial reporting measures, such as time-vesting awards, discretionary awards and awards based wholly on subjective standards, strategic measures or operational measures.

(b) Financial Reporting Measures.

Financial reporting measures are those that are determined and presented in accordance with accounting principles generally accepted in the United States of America (**GAAP**) used in preparing the Company’s financial statements (including non-GAAP financial measures) and any measures derived wholly or in part from such financial measures. For the avoidance of doubt, financial reporting measures include stock price and total shareholder return. A financial reporting measure need not be presented within the financial statements or included in a filing with the SEC.

(c) Excess Incentive Compensation: Amount Subject to Recovery.

The amount(s) to be recovered from the Covered Executive will be the amount(s) by which the Covered Executive’s Incentive Compensation for the relevant period(s) exceeded the amount(s) that otherwise would have been received had it been determined based on the Accounting Restatement. All amounts shall be computed without regard to taxes paid.

For Incentive Compensation based on financial reporting measures such as stock price or total shareholder return, where the amount of excess compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement, the Board will calculate the amount to be reimbursed based on a reasonable estimate of the effect of the Accounting Restatement on such financial reporting measure upon which the Incentive Compensation was received. The Company will maintain documentation of that reasonable estimate and provide such documentation to the applicable national securities exchange.

(d) Method of Recovery.

The Board will determine, in its sole discretion, the method(s) for recovering reasonably promptly excess Incentive Compensation hereunder which may include, without limitation:

- (i) requiring reimbursement of Incentive Compensation previously paid;
 - (ii) forfeiting any Incentive Compensation contribution made under the Company’s deferred compensation plans;
 - (iii) offsetting the recovered amount from any compensation or Incentive Compensation that the Covered Executive may earn or be awarded in the future; or
-

- (iv) taking any other remedial and recovery action permitted by law, as determined by the Board.

5. No Indemnification or Advance.

Subject to applicable law, the Company shall not indemnify, including by paying or reimbursing for premiums for any insurance policy covering any potential losses, any Covered Executives against the loss of any erroneously awarded Incentive Compensation, nor shall the Company advance any costs to any Covered Executives in connection with any action to recover excess Incentive Compensation.

6. Interpretation.

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed.

7. Effective Date.

The effective date of this Policy is May 2, 2023 (the “**Effective Date**”). This Policy applies to Incentive Compensation received by Covered Executives on or after the effective date that results from attainment of a financial reporting measure based on or derived from financial information for any fiscal period ending on or after the Effective Date. In addition, this Policy is intended to be and will be incorporated as an essential term and condition of any Incentive Compensation agreement, plan or program the Company establishes or maintains on or after the Effective Date.

8. Amendment and Termination.

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to reflect changes in regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with any rules or standards adopted by a national securities exchange on which the Company's securities are listed. The Board may terminate this Policy at any time.

9. Other Recovery Rights.

The Board intends that this Policy will be applied to the fullest extent of the law. The Board may require that any employment agreement or similar agreement relating to Incentive Compensation entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any (i) other remedies or rights of compensation recovery that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, or similar agreement relating to Incentive Compensation, unless any such agreement expressly prohibits such right of recovery, and (ii) any other legal remedies available to the Company. The provisions of this Policy are in addition to (and not in lieu of) any rights to repayment the Company may have under Section 304 of the Sarbanes-Oxley Act of 2002 and other applicable laws.

10. Impracticability.

The Company shall recover any excess Incentive Compensation in accordance with this Policy except to the extent that certain conditions are met and the Board has determined that such recovery would be impracticable, in accordance with Rule 10D-1 of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed.

11. Successors.

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.
