



Audit Committee Charter

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PURPOSE

The audit committee ("Committee") is appointed by the board of directors ("Board") of Pure Cycle Corporation ("Company"). The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through overseeing management's conduct of the Company's accounting and financial reporting process and systems of internal accounting and financial controls; selecting, retaining and monitoring the independence, qualifications and performance of the Company's independent auditors, including overseeing the audits of the Company's financial statements and approving any non-audit services; and providing an avenue of communication among the independent auditors, management and the Board.

COMPOSITION

The Committee shall have at least three (3) members at all times, each of whom:

- (1) Is an independent director, as defined in the Rule 4200(a)(15) of the NASDAQ listing standards, as amended;
- (2) Satisfies the independence requirements set forth in Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act");
- (3) Did not participate in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years; and
- (4) Is able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement.

In addition, at least one member of the Committee shall be a "financial expert" as defined by, and meet the financial sophistication standards under, applicable law and listing standards.

Each member of the Committee shall be appointed by the Board and shall serve until the earlier to occur of the date on which he or she shall be replaced by the Board, resigns from the Committee, or resigns from the Board.

MEETINGS

The Board shall name a chair of the Committee, who shall preside over meetings of the Committee. In the absence of the chair, the Committee shall select a chair for that meeting. A majority of the members of the Committee shall constitute a quorum and the act of a majority

of the members present at a meeting where a quorum is present shall be the act of the Committee. The Committee may also act by unanimous written consent of its members. The Committee shall maintain minutes or other records of meetings and activities of the Committee. The Committee will meet quarterly with Company management and the Company's independent auditor to review and approve issuance of all Form 10-Q and Form 10-K filings, as well as meet during each of the standing board meetings as determined by the Board. All Committee meetings, whether conducted in person or telephonically will be documented in Committee minutes available to all Committee members, and at the discretion of the Committee the meetings can include one or more executive sessions with specific Company employees or the independent auditor at the discretion of the Committee.

The Committee shall, through its chair, report to the Board following the meetings of the Committee, addressing such matters as the quality of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent auditors, and other matters related to the Committee's functions and responsibilities.

RESPONSIBILITIES, DUTIES AND POWERS

The Committee's principal responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing and/or reviewing those financial statements. In carrying out these oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditors' work.

The Committee's specific responsibilities and powers are as set forth below:

General Duties and Responsibilities

- Periodically review with management and the independent auditors the applicable law and listing rules (the "Listing Rules") relating to the qualifications, activities, responsibilities and duties of audit committees and compliance therewith, and also take, or recommend that the Board take, appropriate action to comply with such law and rules.
- Review and evaluate, at least annually, the adequacy of this charter and make recommendations for changes to the Board.
- Establish procedures for: (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Retain, at the Company's expense, independent counsel, accountants or others for such purposes as the Committee, in its sole discretion, determines to be appropriate to carry out its responsibilities.

- Investigate any matter brought to its attention related to financial, accounting and audit matters and have full access to all books, records, facilities and personnel of the Company.
- Undertake such additional responsibilities as from time to time may be delegated to it by the Board, required by the Company's articles or bylaws or required by law or Listing Rules.

Related Party Transactions

- Except as set forth under the heading *Related Party Pre-Approval Policy* below, approve, ratify or disapprove any transaction involving the Company and a related party. In addition, review any transaction involving the Company and a related party at least once a year or upon any significant change in the transaction or relationship. For these purposes, a "related party" means:
 - (1) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company;
 - (2) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities;
 - (3) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and
 - (4) any firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

For these purposes, a "transaction" means (i) any transaction, arrangement or relationship (or series of similar transactions, arrangements or relationships) in which the Company was, is or will be a participant and the amount involved exceeds \$100,000; provided, however, that a transaction shall not include compensation resulting solely from the employment relationship of an executive officer if such compensation has been approved, or recommended to the Board for approval, by the Compensation Committee of the Board, and (ii) any transaction required to be disclosed by Item 404 of Regulation S-K.

Once approved, a related party transaction does not require further approval or ratification by the Committee unless there is a significant change in the

transaction or the relationship that was not contemplated at the time of the initial approval or ratification such that the initial approval or ratification would no longer be considered adequate under applicable legal or audit requirements. However, any approved related party transaction remains subject to the other applicable provisions of this charter and Board approval and budget appropriations, if applicable. In particular, any related party transaction that is approved without specifying an expenditure limit or that later requires expenditures in excess of the approved expenditure limit, shall remain subject to the expenditure approval requirements set forth under the heading *Internal Control* below.

Related Party Pre-Approval Policy

- A transaction between the Company and (i) the Rangeview Metropolitan District, (ii) Sky Ranch Metropolitan District Nos. 1, 3, 4 or 5, and/or (iii) the Sky Ranch Community Authority Board ("CAB") shall be deemed pre-approved by the Committee and shall not require separate approval as a "related party" transaction as set forth above under the heading *Related Party Transactions* provided the following conditions are satisfied:
 - (1) The transaction is deemed a related party transaction requiring Committee approval solely because one or more officers or directors of the Company serves at the request of the Company as an officer or director of the district or CAB that is a party to the transaction; and
 - (2) Such officer or director is not receiving any additional compensation for services performed for the applicable district.

The Committee shall review all transactions pre-approved pursuant to this policy no less often than annually or upon any significant change in the transaction or the relationship to confirm that all such transactions comply with the requirements of this policy and that the members of the Committee are being kept sufficiently advised of the details of such transactions by management.

Pre-Approval of Audit and Non-Audit Services

- Pre-approve all engagement letters and fees for all auditing services (including providing comfort letters in connection with securities underwritings) and non-audit services performed by the independent auditors, subject to any exception under Section 10A of the Exchange Act and any rules promulgated thereunder. Pre-approval authority may be delegated to a Committee member or a subcommittee, and any such member or subcommittee shall report any decisions to the full Committee at its next scheduled meeting. The Committee shall not approve an engagement of independent auditors to render non-audit services that are prohibited by law or the Listing Rules

Auditor Engagement

- Be directly responsible for the appointment, compensation, retention, termination, and oversight of the work of any independent auditor engaged by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. The independent auditors shall report directly to the Committee. At least annually, as documented in the Committee board minutes, to evaluate the qualifications, performance and independence of the Company's independent auditors, including an evaluation of the lead audit partner; and to assure the regular rotation of the lead audit partner at the Company's independent auditors and consider regular rotation of the accounting firm serving as the Company's independent auditors.
- Be vested with all responsibilities and authority required by Rule 10A-3 under the Exchange Act.
- Obtain from the independent auditors assurance that they have complied with Section 10A of the Exchange Act, as amended, and the rules promulgated thereunder.
- Review with the independent auditors, at least annually, the auditors' internal quality control procedures.
- Discuss with the independent auditors, at least annually in person or telephonically, any material issues raised by (i) the most recent internal quality peer review of the independent auditors and (ii) the most recent inspection of the independent auditors by the Public Accounting Oversight Board, including whether the Company's audit or the engagement partner on the Company's account was the subject of any such review or inspection and the findings and recommendations of such review and/or inspection.

Internal Control

- Review with the independent auditors any significant matters regarding the Company's internal controls and procedures over financial reporting that have come to their attention during the conduct of their annual audit, and review whether internal control recommendations made by the auditors have been implemented by management.
- Review management's report on internal controls and the independent auditor's attestation regarding management's assessment of internal controls, when and as required by Section 404 of the Sarbanes-Oxley Act.
- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensuring that all supervisory and accounting employees understand their roles and responsibilities with respect to internal controls.

- Review and approve expenditures of more than \$500,000, or contracts and/or agreements which will commit the Company to expenditures collectively of more than \$500,000.

Annual And Interim Financial Statements

- Review, evaluate and discuss with the independent auditors and management, the Company's audited annual financial statements and other information that is to be included in the Company's annual report on Form 10-K, including the disclosures under "Management's Discussion and Analysis", and the results of the independent auditors' audit of the Company's annual financial statement, including the accompanying footnotes and the independent auditors' opinion.
- Review and approve the audited financial statements to be included in the Company's annual report on Form 10-K for filing with the SEC; and to produce the audit committee report required to be included in the Company's proxy statement, which shall be documented in Committee meeting minutes.
- Require from the independent auditors, a report on any significant changes made or proposed to be made in accounting or reporting principles, practices, procedures or rules or in the application thereof, which may impact the Company's financial statements, and review, evaluate and discuss the nature and extent of any such changes and understand their impact or potential impact on the financial statements.
- Require the independent auditors to review the Company's interim financial statements, and review and discuss with the independent auditors and management, the Company's interim financial statements and other information to be included in the Company's quarterly reports on Form 10-Q, including the disclosures under "Management's Discussion and Analysis", prior to filing such reports with the SEC, as evidenced by the Chair signing the audit engagement letter.
- Review and discuss significant accounting and reporting principles, practices and procedures applied in preparing the financial statements and any major changes to the Company's accounting or reporting principles, practices or procedures, including those required or proposed by professional or regulatory pronouncements and actions, as brought to its attention by management and/or the independent auditors.
- Review and discuss all critical accounting policies identified to the Committee by management and the independent auditors.
- When presented with information by management or the independent auditors that there are alternative treatments of material financial information under accounting principles generally accepted in the United States of America, discuss the ramifications of each treatment, the method preferred by the Company, the method preferred by the Company's independent auditors, and

the results of any consultations by management with accounting firms other than the Company's independent auditors.

- Review the results of any material difficulties, differences or disputes with management encountered by the independent auditors during the course of the audit or reviews and be responsible for overseeing the resolution of such difficulties, differences and disputes.
- Review the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees), relating to the conduct of the audit.
- Receive from the independent auditors, review and discuss a formal written statement delineating all relationships between the independent auditors and the Company, regarding relationships and services which may impact the objectivity and independence of the independent auditors, and other applicable standards. The statement shall include a description of all services provided by the independent auditors and the related fees. The Committee shall actively discuss any disclosed relationships or services that may impact the objectivity and independence of the independent auditors.
- Review the scope, plan and procedures to be used on the annual audit and receive confirmation from the independent auditors that no limitations have been placed on the scope or nature of their audit scope, plan or procedures.

Press Releases and Current Reports on Form 8-K

- Review and discuss with management all earnings press releases of the Company, as well as financial information and earnings guidance, if any, provided by the Company to analysts and rating agencies, which can be documented in minutes or other means such as email.

Compliance With Law And Regulations

- Meet with management to review compliance with laws and regulations (including insider reporting) in all operating jurisdictions, the effectiveness of the Company's systems for monitoring compliance with laws and regulations and the results of the investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting regularities.
- Periodically obtain updates from management regarding compliance matters.

Compliance With Corporate Code of Business Conduct and Ethics Policies

- Review, as the Committee deems appropriate, actions taken to ensure compliance with any code of ethics or conduct for the Company established by the Board.

- Review at least annually the Company's Code of Business Conduct and Ethics and any other code of ethics adopted to comply with Section 406 of the Sarbanes-Oxley Act.
- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the Company's ethics and conduct codes.

Risk Management Policies

- Review and assess with management:
 - (1) management's assessment of major risk exposures - operational, financial, strategic, and other;
 - (2) steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies; and
 - (3) management's recommended responses to mitigate damages if identified risks occur notwithstanding monitoring and control procedures.

Committee Evaluation

- Conduct annually a self-evaluation of the Committee's performance and compliance with this charter.
- Evaluate at least annually the independent auditors.
- Request an evaluation of the Committee from the independent auditors and discuss such evaluation with the independent auditors.