

## **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 of:

- The integrity of the Company's financial statements and financial reporting processes;
- Systems of internal control over financial reporting and disclosure controls;
- The qualifications, independence, performance and compensation of the Company's independent registered public accounting firm ("Independent Auditor");
- Compliance with applicable legal and regulatory requirements;
- Related party transactions; and
- Significant financial, IT, fraud, and cybersecurity risks

### **COMPOSITION**

The Committee shall have at least three members at all times, each of whom is an independent director.

All members must be financially literate, and at least one member must qualify as an "audit committee financial expert" under applicable law and listing standards.

Each member of the Committee and the Committee Chair are appointed and may be removed 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 Committee will meet at least quarterly and more frequently as needed, as well as meet during each of the standing board meetings as determined by the Board.

At the discretion of the Committee, the meetings can include one or more executive sessions with Management, including the Chief Financial Officer, specific Company employees, or the independent auditor at the discretion of the Committee.

The chair of the Committee 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. All Committee meetings, whether conducted in person or telephonically will be documented in Committee minutes available to all Committee members

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.

## **AUTHORITY, RESPONSIBILITIES, AND DUTIES**

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. The independent auditors shall report directly to the Committee. In carrying out its 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 authority, responsibilities, and duties are as set forth below:

**Authority:** The Committee has the authority to:

- Appoint, evaluate, compensate, retain, and terminate the Independent Auditor
- Approve all audit and permissible non-audit services. A Committee member may be granted pre-approval authority and is required to brief the entire Committee on any decisions made at the next scheduled meeting. The Committee will not approve the hiring of independent auditors for non-audit services that are prohibited by law or Listing Rules.
- Secure outside counsel, accountants, or other experts, with appropriate budgeting and funding from the company to pay these advisors, as determined by the Committee, to assist the Committee in fulfilling its responsibilities and duties.
- Investigate any matters brought to its attention, and have full access to all books, records, facilities and personnel of the Company.
- Take on any further duties assigned by the Board, or as required by the Company's articles, bylaws, Law, or Listing Rules.
- Receive necessary funding from the Company to carry out its responsibilities.

### **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.

- Conduct annually a self-evaluation of the Committee's performance and compliance with this Charter.
- Review and evaluate, at least annually, the adequacy of this Charter and make recommendations for changes to the Board.

### **Independent Auditor Oversight**

- Select and retain (and recommend to the Board for ratification by the Company's shareholders), and terminate when appropriate, the independent auditor; set the independent auditor's compensation and pre-approve all audit and non-audit services to be provided by the independent auditor.
- The independent auditor shall report directly to the Committee.
- At least annually, evaluate the qualifications, performance and independence of the Company's independent auditor, including an evaluation of the lead audit partner; ensure the lead audit partner at the Company's independent auditors complies with partner rotation requirements; and consider whether, in order to ensure continuing auditor independence, there should be regular rotation of the audit firm itself.
- 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.

### **Annual And Interim Financial Statements and Disclosure:**

- Review, evaluate and discuss with the independent auditors and management, the Company's audited annual financial statements, any new accounting policies or requirements expected or planned to be implemented under PCAOB, SEC, NASDAQ, or other professional regulations or guidance 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.
- 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.
- 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 with the Independent Auditors, the Required Auditor Communications as required by PCAOB Accounting Standard AS 1301. AS 1301 requires the auditor to communicate:
  - Significant accounting policies
  - Critical accounting estimates
  - Significant risks
  - Uncorrected and corrected misstatements
  - Planned audit strategy and scope
  - Independence matters
  - Difficult or contentious issues
  - Material written communications
  - Going concern evaluations
- Receive written disclosures and the letter from the Independent Auditor, required by applicable Nasdaq listing standards and the Public Company Accounting Oversight Board (“PCAOB”), regarding the independent auditor’s communications with the Committee concerning the independent auditor’s independence.

**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.

**SEC Whistleblower Policy:** 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.

#### **Compliance With Laws 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.

**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 5, 6, 7, and 8 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.

**Significant Financial, IT, Fraud, and Cybersecurity Risks:** Assist the Board in its oversight of significant information technology risks impacting financial reporting integrity. Review major IT incidents and management’s response actions. \_Oversee data governance practices related to confidentiality, integrity, and availability of financial data.