

PURE CYCLE CORPORATION
CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

Approved January 17, 2018

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PURPOSE

The audit committee (the “Committee”) is appointed by the board of directors (the “Board”) of Pure Cycle Corporation (the “Company”). This audit committee charter specifies the composition, scope of authority and responsibility of the Committee. The primary function 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 and performance of the Company’s outside 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 outside 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;
- (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 chairperson of the Committee, who shall prepare and/or approve the agenda for each meeting and shall preside over meetings of the Committee. In the absence of the chairperson, the Committee shall select a chairperson 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 shall meet as frequently as circumstances dictate, but at least once annually prior to the Company's filing of its annual report on Form 10-K with the Securities and Exchange Commission (the "SEC"). The chairperson shall meet with the Company's outside auditors following each fiscal quarter prior to the Company's filing of its quarterly reports on Form 10-Q with the SEC and shall report the results of such meetings to the other members of the Committee promptly following the meetings; provided, however, that the entire Committee shall meet prior to the Company's filing of its quarterly report on 10-Q if (i) there has been a material change in the Company's accounting or reporting principles, practices or procedures during the interim period covered by the report, which shall include any change to the assumptions used by the Company for valuing the Company's assets or liabilities or (ii) the chairperson determines that such a meeting is warranted based on the results of the chairpersons' meeting with the auditors. The chairperson shall also meet in person or telephonically with the outside auditors on the day the Company's annual report on Form 10-K is to be filed to confirm the absence of any subsequent events between the date of the meeting of the Committee with the auditors to discuss the financial statements to be included in the annual report on Form 10-K and the date of the filing of such report with the SEC. Each meeting in person or telephonically of the Committee or its chairperson with the outside auditors shall include an executive session in the absence of management.

The Committee shall, through its chairperson, 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 outside auditors, the performance of the internal audit function and other matters related to the Committee's functions and responsibilities.

The Committee shall at least annually meet in person or telephonically separately with each of the Company's management, the Company's chief financial officer and the Company's outside auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

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 outside 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 outside auditors' work.

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

General Duties And Responsibilities

- Periodically review with management and the outside 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.
- Prepare annual reports of the Committee for inclusion in the proxy statement for the Company's annual meeting.
- 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

- 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 \$25,000; 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.

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 outside 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 outside auditors to render non-audit services that are prohibited by law or the Listing Rules

Auditor Independence

- Be directly responsible for the appointment, compensation, retention, termination, and oversight of the work of any outside auditor engaged by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. The outside auditors shall report directly to the Committee.
- Be vested with all responsibilities and authority required by Rule 10A-3 under the Exchange Act.
- Obtain from the outside auditors assurance that they have complied with Section 10A of the Exchange Act, as amended, and the rules promulgated thereunder.

- Review with the outside auditors, at least annually, the auditors' internal quality control procedures.
- Discuss with the outside auditors, at least annually in person or telephonically, any material issues raised by (i) the most recent internal quality peer review of the outside auditors and (ii) the most recent inspection of the outside 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 annually the adequacy and quality of the Company's financial and accounting staffing, the need for and scope of internal audit reviews, and the plan, budget and the designations of responsibilities for any internal audit.
- Review the performance and material findings of internal audit reviews.
- Review annually with the outside 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 annually management's report on internal controls and the 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 the \$250,000, or contract and/or agreements which will commit the Company to expenditures collectively of more than \$250,000.

Annual And Interim Financial Statements

- Review, evaluate and discuss with the outside auditors and management at a Committee meeting in person or telephonically, 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 outside auditors' audit of the Company's annual financial statement, including the accompanying footnotes and the outside auditors' opinion, and determine whether to recommend to the Board

that the financial statements be included in the Company's annual report on Form 10-K for filing with the SEC.

- At least annually, require from the outside 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 outside auditors to review the Company's interim financial statements, and review and discuss with the outside auditors and management at a chairperson's or Committee meeting, as applicable, 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 with the Company's management and outside auditors 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 outside auditors.
- Review and discuss all critical accounting policies identified to the Committee by management and the outside auditors.
- When presented with information by management or the outside 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 outside auditors, and the results of any consultations by management with accounting firms other than the Company's outside auditors.
- Review the results of any material difficulties, differences or disputes with management encountered by the outside 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 outside auditors, review and discuss a formal written statement delineating all relationships between the outside auditors and the Company, consistent with the Independence Standards Board, Standard No. 1, regarding

relationships and services which may impact the objectivity and independence of the outside auditors, and other applicable standards. The statement shall include a description of all services provided by the outside auditors and the related fees. The Committee shall actively discuss any disclosed relationships or services that may impact the objectivity and independence of the outside auditors.

- Review the scope, plan and procedures to be used on the annual audit and receive confirmation from the outside auditors that no limitations have been placed on the scope or nature of their audit scope, plan or procedures.
- Require management to distribute the Company's quarterly reports on Form 10-Q and annual report on 10-K to each member of the Board and to obtain written approval of the 10-Q or 10-K, as applicable, from a majority of the Board members prior to filing such reports with the SEC.

Press Releases and Current Reports on Form 8-K

- Review and discuss with management and the outside auditors prior to release all press releases and current reports on Form 8-K of the Company, as well as financial information and earnings guidance, if any, provided by the Company to analysts and rating agencies.

Compliance With Law And Regulations

- Meet at least annually in person or telephonically, 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 with management, the outside auditors and legal counsel, 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

- Meet at least annually in person or telephonically, with management to review and discuss the following:
 - (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 outside auditors.
- Request an evaluation of the Committee from the outside auditors at least annually and discuss such evaluation with the outside auditors.