

**PURE CYCLE CORPORATION**  
**CORPORATE GOVERNANCE GUIDELINES**

Approved January 13, 2016

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**1. Purpose of Guidelines**

- 1.1 The board of directors (the “Board”) of Pure Cycle Corporation (the “Company”) has developed corporate governance practices to help it fulfill its responsibilities to shareholders to oversee the work of management and the Company’s business results.
- 1.2 The Company has memorialized these corporate governance practices in these Corporate Governance Guidelines (the “Guidelines”) to assure that the Board has the necessary procedures in place to review and evaluate the Company’s business operations as needed and to make decisions that are independent of the Company’s management.
- 1.3 The Guidelines are also intended to inform management of the Board’s expectations for management and to guide management in fulfilling its responsibilities.
- 1.4 The Board may amend, waive, suspend or repeal the Guidelines at any time as it may find necessary or advisable for the Company in order to achieve these objectives.

**2. Board of Directors and Executive Sessions**

- 2.1 **Board Size.** The bylaws of the Company provide that the Board will consist of not less than three (3) and not more than fifteen (15) directors, with the exact number to be determined from time to time by resolution of the Board. The Board periodically evaluates whether a larger or smaller slate of directors is preferable.
- 2.2 **Board Meetings.**
  - 2.2.1 **Agendas.** The Chairman of the Board and the President of the Company, taking into account suggestions from other members of the Board, will set the agenda for each Board meeting, and will distribute this agenda in advance to each director.
  - 2.2.2 **Advance Distribution of Materials.** All information relevant to the Board’s understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members in advance, whenever feasible and appropriate. This will help facilitate the efficient use of meeting

time. In preparing this information, management should ensure that the materials distributed are as concise as possible, yet give directors sufficient information to make informed decisions.

2.2.3 **Regular Meetings.** The Board shall hold at least two (2) regular meetings per year. One such meeting shall be held in January in conjunction with the annual meeting of shareholders. All other meetings shall be held at such times as the Board may determine. In addition, these meetings shall be scheduled as far in advance as possible to enable directors to plan to attend in person. All directors are expected to attend the regular meetings in person.

2.2.4 **Director Attendance at Shareholder Meetings.** All directors are expected to attend the annual meeting of shareholders in person.

2.3 **Executive Sessions of Independent Directors and Non-Management Directors.** The non-management directors of the Company will meet regularly in executive session, i.e., with no management directors or management present, at least twice a year in conjunction with the regular Board meetings. If the non-management directors include a director who is not independent, the independent directors will meet at least once without the presence of such non-independent director. These executive session discussions may include such topics as the non-management and independent directors determine.

### 3. Committees

3.1 **Number and Type of Committees.** The Board has three (3) standing committees - an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Board may add new committees or remove existing committees as it deems advisable in the fulfillment of its primary responsibilities. Each committee will perform its duties as assigned by the Board in compliance with Company bylaws and that committee's charter. Committee duties may be described briefly as follows:

3.1.1 Audit Committee. The Audit Committee reviews the work of the Company's internal accounting and audit processes. The committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent auditors, including pre-approval of all audit and non-audit services to be performed by such auditors. The committee is also responsible for review and approval of related party transactions and oversight of compliance and risk management policies and procedures.

3.1.2 Compensation Committee. The Compensation Committee stays informed as to market levels of compensation and, based on

employee performance, recommends compensation levels and types of compensation for the Company's officers to the Board. The Compensation Committee also administers the Company's incentive compensation plans and makes recommendations to the Board regarding the adoption or amendment of such plans.

3.1.3 Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for recommending to the Board individuals to be nominated as directors and as committee members. The committee evaluates new candidates and current directors, and performs other duties as described elsewhere in these Guidelines.

3.2 **Composition of Committees; Committee Chairpersons.** The Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee consist solely of independent directors. The Board is responsible for the appointment of committee members and committee chairpersons, taking into account the recommendation of the Nominating and Corporate Governance Committee, according to criteria that it determines to be in the best interest of the Company and its shareholders.

3.3 **Committee Meetings and Agenda.** The chairperson of each committee is responsible for developing, together with relevant Company managers, the committee's general agenda and objectives and for setting the specific agenda for committee meetings. The chairperson and committee members will determine the frequency and length of committee meetings consistent with the committee's charter.

3.4 **Committee Access to Advisors and Experts.** Each committee will have the authority to engage and obtain advice from internal or external legal, accounting or other advisors and experts, as it deems necessary or appropriate.

#### **4. Director Qualification Standards**

4.1 **Selection Process.** All Board members are elected annually by the Company's shareholders, except as noted below with respect to vacancies. Each year at the Company's annual meeting, the Board recommends a slate of directors for election by the shareholders. The Board's recommendations are based on the Board's determination (using advice and information supplied by the Nominating and Corporate Governance Committee) as to the suitability of each individual, and the slate as a whole, to serve as directors of the Company, taking into account the membership criteria discussed below. The Board may fill vacancies in existing or new director positions. Such directors elected by the Board

serve only until the next election of directors unless elected by the shareholders to a further term at that time.

- 4.2 **Qualification Standards.** Board and committee members are selected based on qualification standards determined by the Nominating and Corporate Governance Committee as described in the Nominating and Corporate Governance Committee Charter.

## 5. **Director Responsibilities**

- 5.1 **Board Purpose and Responsibilities.** The Board represents and acts on behalf of all shareholders of the Company. The Board is responsible for establishing and helping the Company achieve business and organizational objectives through oversight, review, and counsel. Among other things, the Board will:

- 5.1.1 approve and monitor critical business and financial strategies of the Company;
- 5.1.2 assess major risks facing the Company, and options for their mitigation;
- 5.1.3 approve, authorize and monitor major corporate actions and contracts;
- 5.1.4 oversee processes designed to ensure that the Company and its employees comply with applicable laws and regulations;
- 5.1.5 oversee processes designed to ensure the accuracy and completeness of the Company's financial statements;
- 5.1.6 monitor the effectiveness of the Company's internal controls;
- 5.1.7 review the recommendations of Company management for, and elect, the Company's principal officers;
- 5.1.8 review and evaluate management's succession plans; and
- 5.1.9 evaluate the effectiveness of the full Board and individual directors on an annual basis with guidance from the annual evaluation report on the Board prepared by the Nominating and Corporate Governance Committee.

## 6. **Management Responsibilities**

- 6.1 **Management Purpose and Responsibilities.** Management is responsible for the day-to-day operation of the Company. It represents and acts on behalf of all shareholders of the Company. Management is responsible for causing the Company to achieve its business and organizational

objectives, implementing the formal resolutions of the Board, and keeping the Board adequately informed of the Company's activities. Among other things, management will engage in the following activities, subject to oversight by the Board:

- 6.1.1 Develop and implement critical business and financial strategies of the Company, including preparing an annual budget for Board approval;
- 6.1.2 Assess major risks facing the Company, and options for their mitigation, and report such risks and options to the Board;
- 6.1.3 inform the Board of all major corporate actions and events and obtain all necessary or desirable Board approvals;
- 6.1.4 develop and implement processes designed to ensure that the Company and its employees comply with applicable laws and regulations;
- 6.1.5 develop and implement processes designed to ensure the accuracy and completeness of the Company's financial statements;
- 6.1.6 develop and implement internal control procedures;
- 6.1.7 make recommendations to the Board regarding the Company's principal officers;
- 6.1.8 make recommendations to the Compensation Committee regarding compensation of the Company's principal officers and regarding equity compensation for employees;
- 6.1.9 develop and implement succession plans for management; and
- 6.1.10 make recommendations to the Nominating and Corporate Governance Committee regarding orientation and continuing education programs for directors.

6.2 **Procedures for Obtaining Board Approval.** Management is responsible for ensuring that Board approval is obtained for all material corporate contracts and liabilities, the annual budget, matters in excess of or not contemplated by the budget, any matter not in the ordinary course of business, any matter for which Board approval is required by law, any matter which management believes or should reasonably believe the Board expects to approve, and any other matter for which management deems it necessary or advisable to obtain Board approval. Management shall obtain advance approval of the Board whenever reasonably possible. In order to obtain Board approval, management will:

- 6.2.1 inform the Board as far in advance as reasonably possible of the anticipated action;
- 6.2.2 provide the Board with an economic analysis of the action, if applicable, including anticipated costs, revenues, tax effects, and accounting treatment;
- 6.2.3 provide the Board with term sheets and/or draft agreements as soon as such documents are meaningful (e.g., if a draft is prepared by another party and is not acceptable to management, the draft may not be meaningful; however, if management prepares the draft or a response to a draft, the document is probably meaningful);
- 6.2.4 continue to update the Board on the status of the action, providing revised documents as they become available; and
- 6.2.5 seek approval of the action before it becomes a binding obligation of the Company, using final documents and/or terms, if available, or documents and/or terms which are as final as practicable under the circumstances.

## **7. Director Access to Management and Independent Auditors**

- 7.1 **Access to Employees.** The Board will have access to Company employees, including management, in order to ensure that directors can ask all questions and gather all information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries. Management is encouraged to invite other Company personnel to any Board meeting at which their presence and expertise would help the Board have a full understanding of matters being considered.
- 7.2 **Access to Independent Auditors.** The Board will have access, as the Board deems necessary or appropriate, to the Company's independent auditors in order to ensure that directors can ask all questions and gather all information necessary to fulfill their duties. The Board may specify a protocol for making such inquiries.
- 7.3 **Access to Advisors and Experts.** The Board will have the authority to engage and obtain advice and assistance from internal or external legal, accounting or other advisors and experts, as it deems necessary or appropriate.

## **8. Director Compensation**

- 8.1 **Board Compensation Review.** The Board should review its compensation practices upon the recommendation of the Nominating and Corporate Governance Committee.

- 8.2 **Director Stock Ownership.** The Board believes that directors should have a financial stake in the Company; therefore, the Board has adopted an equity incentive plan which provides for option grants to directors.

**9. Board Orientation and Continuing Education**

- 9.1 **Orientation.** The Company will arrange for new members of the Board to meet with Company management in order that the new member can become familiar with the Company's strategic plans, financial statements, and key policies and practices. This orientation should begin as soon as practicable after the new Board member is elected, and should be complete within six months after the new member joins the Board. Management and the new Board member will report to the Board upon completion of the orientation process.
- 9.2 **Continuing Education.** From time to time, the Company may provide Board members with presentations from Company or third party experts on topics that will assist Board members in carrying out their responsibilities.
- 9.3 **Corporate Record of Continuing Education.** The Corporate Secretary shall maintain a record of continuing education events attended by Board members either through Company presentations or on the director's plan initiative. Each director will report to the Corporate Secretary any educational activities engaged in which may enhance the director's abilities to serve as a director of the Company.

**10. Employee Communications with the Board**

- 10.1 Employees are encouraged to communicate directly with the Board as described below.
- 10.2 Employees wishing to communicate with the Board should send an e-mail or write the Chairman of the Board at:

Mail: Chairman of the Board  
Pure Cycle Corporation  
34501 E. Quincy Avenue  
Bldg. 34, Box 10  
Watkins, Colorado 80137

E-Mail: [chairman@purecyclewater.com](mailto:chairman@purecyclewater.com)

- 10.3 Each such communication should prominently indicate that it is intended for the Board, the Chairman, a specific committee, non-management directors, or a particular individual director. Each communication intended for the Board or a member of the Board and received by the President that is a communication made by the employee in its capacity as

an employee of the Company (as opposed to in its capacity as a party involved in a commercial relationship with the Company) will be promptly forwarded to the specified party.

- 10.4 The communication will not be opened if the information noted in Item 10.3 above is prominently indicated on the outside of the envelope or in the e-mail subject line, but rather will be forwarded unopened to the intended recipient.
- 10.5 If an employee reasonably believes that any Company employee or other person acting on behalf of the Company has violated any legal or regulatory requirements or internal policy relating to accounting standards and disclosures, internal accounting controls, or matters related to the internal or external audit of the Corporation's financial statements, the employee should immediately report his or her concern to the Chairman of the Audit Committee or management in accordance with the Audit Committee Whistleblower Policy then in effect.

**11. Shareholder Communications with the Board**

Shareholders may communicate directly with the Board in accordance with the policy attached hereto as Exhibit A.

**12. Miscellaneous**

- 12.1 **Review of Governance Guidelines.** The Nominating and Governance Committee will review these Guidelines at least annually.