

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-39061

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

(Exact name of registrant as specified in its charter)

Alberta, Canada  
(State or other jurisdiction of  
incorporation or organization)

N/A  
(IRS Employer  
Identification No.)

7303 30th Street S.E.  
Calgary, Alberta, Canada  
(Address of principal executive offices)

T2C 1N6  
(Zip code)

(Registrant's telephone number, including area code): (403) 723-5000

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Shares, without par value	DIRTT	The Nasdaq Stock Market LLC

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 (§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 not 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The registrant had 84,681,364 common shares outstanding as of July 29, 2020.

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**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED JUNE 30, 2020**

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (this “Quarterly Report”) are “forward-looking statements” within the meaning of “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995, and Section 21E of the Exchange Act of 1934, as amended (the “Exchange Act”) and “forward-looking information” within the meaning of applicable Canadian securities laws. All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “project,” “outlook,” “may,” “will,” “should,” “would,” “could,” “can,” the negatives thereof, variations thereon and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Forward-looking statements are based on certain estimates, beliefs, expectations and assumptions made in light of management’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors that may be appropriate.

Forward-looking statements necessarily involve unknown risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed or implied in such statements. Due to the risks, uncertainties and assumptions inherent in forward-looking information, you should not place undue reliance on forward-looking statements. Factors that could have a material adverse effect on our business, financial condition, results of operations and growth prospects include, but are not limited to, the severity and duration of the coronavirus (“COVID-19”) pandemic and related economic repercussions and other risks described under the section titled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the U.S. Securities and Exchange Commission (the “SEC”) and applicable securities commissions or similar regulatory authorities in Canada (the “Annual Report on Form 10-K”), and in this Quarterly Report under “Part II, Item 1A. Risk Factors.” These factors include, but are not limited to, the following:

- competition in and changes to the interior construction industry;
- global economic, political, health and social conditions and financial markets, including those related to pandemics such as the COVID-19 pandemic;
- the condition and changing trends of the overall construction industry;
- our reliance on our network of Distribution Partners (as defined herein) for sales, marketing and installation of our solutions;
- our ability to maintain and manage growth effectively;
- our ability to introduce new designs, solutions and technology and gain client and market acceptance;
- loss of our key executives;
- labor overcapacity or shortages and disruptions in our manufacturing facilities;
- product liability, product defects and warranty claims brought against us;
- defects in our designing and manufacturing software;
- infringement on our patents and other intellectual property;
- cyber-attacks and other security breaches of our information and technology systems;
- material fluctuations of commodity prices, including raw materials;
- shortages of supplies or disruptions in the supply chain of certain key components and materials;
- our ability to balance capacity within our existing manufacturing facilities;
- our exposure to currency exchange rates, tax rates and other fluctuations that result from general economic conditions and changes in laws;
- legal and regulatory proceedings brought against us;
- the availability of capital or financing on acceptable terms, which may impair our ability to make investments in the business; and
- other factors and risks described under the heading “Risk Factors” included in our Annual Report on Form 10-K.

These risks are not exhaustive. Because of these risks and other risks and uncertainties, our actual results, performance or achievement, or industry results, may be materially different from the anticipated or estimated results discussed in the forward-looking statements in this Quarterly Report. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the effects of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in, or implied by, any forward-looking statements. Our past results of operations are not necessarily indicative of our future results. You should not place undue reliance on any forward-looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. We undertake no obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under applicable securities laws. We qualify all of our forward-looking statements by these cautionary statements.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**DIRTT Environmental Solutions Ltd.**

**Interim Condensed Consolidated Balance Sheets  
(Unaudited – Stated in thousands of U.S. dollars)**

	As at	
	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	44,626	47,174
Trade and other receivables, net of expected credit losses of \$0.7 million at June 30, 2020 and \$0.1 million December 31, 2019	21,281	24,941
Inventory	17,651	17,566
Prepays and other current assets	3,571	3,340
<b>Total Current Assets</b>	<b>87,129</b>	<b>93,021</b>
Property, plant and equipment, net	42,094	41,365
Capitalized software, net	8,073	8,213
Operating lease right-of-use assets, net	18,111	20,661
Deferred tax assets, net	6,073	5,364
Goodwill	1,354	1,421
Other assets	4,989	5,518
<b>Total Assets</b>	<b>167,823</b>	<b>175,563</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	20,458	20,384
Other liabilities	4,071	5,187
Customer deposits and deferred revenue	5,256	3,567
Current portion of lease liabilities	5,136	5,287
<b>Total Current Liabilities</b>	<b>34,921</b>	<b>34,425</b>
Other long-term liabilities	2,277	35
Long-term lease liabilities	13,638	16,116
<b>Total Liabilities</b>	<b>50,836</b>	<b>50,576</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, unlimited authorized without par value, 84,681,364 issued and outstanding at June 30, 2020 and December 31, 2019	180,639	180,639
Additional paid-in capital	9,274	8,343
Accumulated other comprehensive loss	(21,914)	(18,028)
Accumulated deficit	(51,012)	(45,967)
<b>Total Shareholders' Equity</b>	<b>116,987</b>	<b>124,987</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>167,823</b>	<b>175,563</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**DIRTT Environmental Solutions Ltd.**

**Interim Condensed Consolidated Statement of Operations**  
(Unaudited – Stated in thousands of U.S. dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Product revenue	40,765	61,273	81,064	125,113
Service revenue	1,390	2,818	2,072	4,039
<b>Total revenue</b>	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>
Product cost of sales	26,751	37,102	54,041	77,170
Costs of under-utilized capacity	—	—	2,010	—
Service cost of sales	1,188	2,568	1,554	3,957
<b>Total cost of sales</b>	<b>27,939</b>	<b>39,670</b>	<b>57,605</b>	<b>81,127</b>
<b>Gross profit</b>	<b>14,216</b>	<b>24,421</b>	<b>25,531</b>	<b>48,025</b>
<b>Expenses</b>				
Sales and marketing	6,177	9,543	13,585	17,330
General and administrative	6,194	6,856	14,019	13,753
Operations support	2,251	2,870	4,783	5,352
Technology and development	2,082	2,046	4,247	4,163
Stock-based compensation	425	(1,655)	886	4,792
Reorganization	—	—	—	2,639
<b>Total operating expenses</b>	<b>17,129</b>	<b>19,660</b>	<b>37,520</b>	<b>48,029</b>
<b>Operating income (loss)</b>	<b>(2,913)</b>	<b>4,761</b>	<b>(11,989)</b>	<b>(4)</b>
Government subsidies	(4,284)	—	(4,284)	—
Foreign exchange (gain) loss	960	441	(1,359)	960
Interest income	(57)	(38)	(195)	(92)
Interest expense	61	25	96	74
	<b>(3,320)</b>	<b>428</b>	<b>(5,742)</b>	<b>942</b>
<b>Income (loss) before tax</b>	<b>407</b>	<b>4,333</b>	<b>(6,247)</b>	<b>(946)</b>
<b>Income taxes</b>				
Current tax expense (recovery)	366	936	(215)	1,088
Deferred tax expense (recovery)	(242)	786	(987)	620
	<b>124</b>	<b>1,722</b>	<b>(1,202)</b>	<b>1,708</b>
<b>Net income (loss)</b>	<b>283</b>	<b>2,611</b>	<b>(5,045)</b>	<b>(2,654)</b>
<b>Income (loss) per share</b>				
Basic and diluted income (loss) per share	0.00	0.03	(0.06)	(0.03)
<b>Weighted average number of shares outstanding (in thousands)</b>				
Basic	84,681	84,661	84,681	84,661
Diluted	85,094	85,573	84,681	84,661

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
<b>Interim Condensed Consolidated Statement of Comprehensive Income (Loss)</b>				
Income (loss) for the period	283	2,611	(5,045)	(2,654)
Exchange differences on translation of foreign operations	2,882	1,276	(3,886)	3,372
<b>Comprehensive income (loss) for the period</b>	<b>3,165</b>	<b>3,887</b>	<b>(8,931)</b>	<b>718</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**DIRTT Environmental Solutions Ltd.**

**Interim Condensed Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited – Stated in thousands of U.S. dollars, except for share data)**

	Number of Common shares	Common shares	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
<b>As at December 31, 2018</b>	<b>84,660,319</b>	<b>180,562</b>	<b>6,615</b>	<b>(22,092)</b>	<b>(41,571)</b>	<b>123,514</b>
Issued on exercise of options	1,053	4	(1)	—	—	3
Stock-based compensation	—	—	(429)	—	—	(429)
Foreign currency translation adjustment	—	—	—	2,096	—	2,096
Net loss for the period	—	—	—	—	(5,265)	(5,265)
<b>As at March 31, 2019</b>	<b>84,661,372</b>	<b>180,566</b>	<b>6,185</b>	<b>(19,996)</b>	<b>(46,836)</b>	<b>119,919</b>
Issued on exercise of options	3,825	13	—	—	—	13
Stock-based compensation	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	1,276	—	1,276
Net income for the period	—	—	—	—	2,611	2,611
<b>As at June 30, 2019</b>	<b>84,665,197</b>	<b>180,579</b>	<b>6,185</b>	<b>(18,720)</b>	<b>(44,225)</b>	<b>123,819</b>
<b>As at December 31, 2019</b>	<b>84,681,364</b>	<b>180,639</b>	<b>8,343</b>	<b>(18,028)</b>	<b>(45,967)</b>	<b>124,987</b>
Stock-based compensation	—	—	663	—	—	663
Foreign currency translation adjustment	—	—	—	(6,768)	—	(6,768)
Net loss for the period	—	—	—	—	(5,328)	(5,328)
<b>As at March 31, 2020</b>	<b>84,681,364</b>	<b>180,639</b>	<b>9,006</b>	<b>(24,796)</b>	<b>(51,295)</b>	<b>113,554</b>
Stock-based compensation	—	—	268	—	—	268
Foreign currency translation adjustment	—	—	—	2,882	—	2,882
Net income for the period	—	—	—	—	283	283
<b>As at June 30, 2020</b>	<b>84,681,364</b>	<b>180,639</b>	<b>9,274</b>	<b>(21,914)</b>	<b>(51,012)</b>	<b>116,987</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**DIRTT Environmental Solutions Ltd.**

**Interim Condensed Consolidated Statement of Cash Flows**  
(Unaudited – Stated in thousands of U.S. dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
<b>Cash flows from operating activities:</b>				
Net income (loss) for the period	283	2,611	(5,045)	(2,654)
Adjustments:				
Depreciation and amortization	2,761	2,940	5,893	6,335
Stock-based compensation, net of settlements	425	(4,252)	886	1,429
Foreign exchange (gain) loss	958	284	(1,256)	282
(Gain) loss on disposal of property, plant and equipment	(46)	(9)	(46)	53
Deferred income tax expense (recovery)	(242)	786	(987)	620
Changes in operating assets and liabilities:				
Trade and other receivables	2,010	8,345	3,446	15,263
Inventory	(671)	1	(636)	440
Prepaid and other current assets	565	343	(332)	42
Other assets	44	(108)	217	4
Trade accounts payable and other liabilities	(4,300)	(4,783)	(2,170)	(6,409)
Lease liabilities	(34)	(102)	(61)	(248)
Customer deposits and deferred revenue	624	1,424	1,708	(276)
<b>Net cash flows provided by operating activities</b>	<b><u>2,377</u></b>	<b><u>7,480</u></b>	<b><u>1,617</u></b>	<b><u>14,881</u></b>
<b>Cash flows from investing activities:</b>				
Purchase of property, plant and equipment	(4,508)	(1,775)	(6,186)	(3,159)
Capitalized software development expenditures and other asset expenditures	(945)	(1,092)	(1,915)	(1,595)
Recovery of software development expenditures	140	30	215	105
Proceeds on sale of property, plant and equipment	46	11	46	55
Changes in accounts payable related to investing activities	1,305	(140)	1,423	(476)
<b>Net cash flows used in investing activities</b>	<b><u>(3,962)</u></b>	<b><u>(2,966)</u></b>	<b><u>(6,417)</u></b>	<b><u>(5,070)</u></b>
<b>Cash flows from financing activities:</b>				
Cash received on exercise of options	—	11	—	16
Proceeds received on leasing facilities	2,591	—	2,591	—
Repayment on leasing facilities	(64)	—	(64)	—
Repayment of long-term debt	—	—	—	(5,561)
<b>Net cash flows provided by (used in) financing activities</b>	<b><u>2,527</u></b>	<b><u>11</u></b>	<b><u>2,527</u></b>	<b><u>(5,545)</u></b>
Effect of foreign exchange on cash and cash equivalents	224	152	(275)	1,058
Net increase (decrease) in cash and cash equivalents	<b><u>1,166</u></b>	<b><u>4,677</u></b>	<b><u>(2,548)</u></b>	<b><u>5,324</u></b>
Cash and cash equivalents, beginning of period	<u>43,460</u>	<u>54,059</u>	<u>47,174</u>	<u>53,412</u>
<b>Cash and cash equivalents, end of period</b>	<b><u>44,626</u></b>	<b><u>58,736</u></b>	<b><u>44,626</u></b>	<b><u>58,736</u></b>
<b>Supplemental disclosure of cash flow information:</b>				
Interest paid	(61)	(25)	(96)	(74)
Income taxes paid	(58)	(402)	(58)	(450)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

## **DIRTT Environmental Solutions Ltd.**

### **Notes to the Unaudited Interim Condensed Consolidated Financial Statements (Amounts in thousands of U.S. dollars unless otherwise stated)**

#### **1. GENERAL INFORMATION**

DIRTT Environmental Solutions Ltd. and its subsidiaries (“DIRTT,” the “Company,” “we” or “our”) is a leading technology-driven manufacturer of highly customized interiors. DIRTT combines its proprietary 3D design, configuration and manufacturing software (“ICE®” or “ICE Software”) with integrated in-house manufacturing of its innovative prefabricated interior construction solutions and an extensive distribution partners network (“Distribution Partners”). ICE provides accurate design, drawing, specification, pricing and manufacturing process information, allowing rapid production of high-quality custom solutions using fewer resources than traditional manufacturing methods. ICE is also licensed to unrelated companies and Distribution Partners of the Company. DIRTT is incorporated under the laws of the province of Alberta, Canada, its headquarters is located at 7303 – 30<sup>th</sup> Street S.E., Calgary, AB, Canada T2C 1N6 and its registered office is located at 4500, 855 – 2<sup>nd</sup> Street S.W., Calgary, AB, Canada T2P 4K7. DIRTT’s common shares trade on the Toronto Stock Exchange under the symbol “DRT” and on The Nasdaq Global Select Market (“Nasdaq”) under the symbol “DRTT”.

#### **2. BASIS OF PRESENTATION**

The accompanying unaudited interim condensed consolidated financial statements (the “Financial Statements”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, the Financial Statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of the Company, the Financial Statements contain all adjustments necessary, consisting of only normal recurring adjustments, for a fair statement of its financial position as of June 30, 2020, and its results of operations and cash flows for the three and six months ended June 30, 2020 and 2019. The condensed balance sheet at December 31, 2019, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. These Financial Statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 included in the Company’s Annual Report on Form 10-K. The Company adopted new accounting standards relating to credit losses and cloud computing effective January 1, 2020. Further information on these standards and the impact on the Company of these standards is described in Note 4.

In these Financial Statements, unless otherwise indicated, all dollar amounts are expressed in United States (“U.S.”) dollars. DIRTT’s financial results are consolidated in Canadian dollars, the Company’s functional currency, and the Company has adopted the U.S. dollar as its reporting currency. All references to US\$ or \$ are to U.S. dollars and references to C\$ are to Canadian dollars.

#### ***Principles of consolidation***

The Financial Statements include the accounts of DIRTT and its subsidiaries. All intercompany balances, income and expenses, unrealized gains and losses resulting from intercompany transactions have been eliminated on consolidation.

#### ***Basis of measurement***

These Financial Statements have been prepared on the historical cost convention except for certain financial instruments and certain components of stock-based compensation that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Company’s quarterly tax provision is based upon an estimated annual effective tax rate.

#### ***Seasonality***

Sales of the Company’s products are driven by consumer and industrial demand for interior construction solutions. The timing of customer’s construction projects can be influenced by a number of factors including the prevailing economic climate and weather.

### 3. COVID-19

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization and has had extraordinary and rapid negative impacts on global societies, workplaces, economies and health systems. The impact of COVID-19 on DIRTT's business in the near and mid-term remains uncertain. The resulting adverse economic conditions are expected to negatively impact construction activity in the near term at the very least, with potential significant negative impacts extending to the first half of 2021 and beyond.

While many construction sites remain open and re-opening strategies have been implemented across North America, certain projects currently underway are experiencing delays, impacted by both the implementation of social distancing and other safety related measures and the re-emergence of COVID-19 in certain geographic areas. The timing and pace of economic recovery, or the resumption of construction activity and related demand, is not possible to predict nor its impact on achievement of DIRTT's business objectives.

Key sources of estimation uncertainty can be found in the Company's annual consolidated financial statements for the year ended December 31, 2019. COVID-19 has increased the complexity of estimates and assumptions used to prepare the interim condensed consolidated financial statements, particularly related to the following key sources of estimation uncertainty:

#### *Credit risk*

COVID-19 may cause DIRTT's Distribution Partners to experience liquidity issues and this may result in higher expected credit losses or slower collections. Management estimated the impact of expected credit losses and increased the provision by \$0.6 million in the first quarter of 2020 (see Note 5). Management will continue to reassess the impact of COVID-19 on Distribution Partners in subsequent periods and the estimation of such credit losses is complex because of limited historical precedent for the current economic situation. In addition, we acquired trade credit insurance effective April 1, 2020.

#### *Liquidity risk*

The Company may have lower cash flows from operating activities available to service debts due to lower sales or collections. Information about our credit facilities is presented in Note 6.

#### *Government subsidies*

As part of the Canadian federal government's COVID-19 Economic Response Plan, the Canadian government established the Canadian Emergency Wage Subsidy ("CEWS"). As originally implemented, the CEWS provides the Company with a taxable subsidy of up to 75% of wages paid to Canadian employees during the periods extending from March 15, 2020 to June 6, 2020 (subsequently extended to August 29, 2020), provided that certain Canadian-sourced revenues decline by over 15 – 30%, computed generally on the basis of monthly revenues year-over-year during the available periods.

The Company reviews its eligibility for the CEWS for each qualifying period. The Company accounts for such government subsidies on an accrual basis when the conditions for eligibility are met. The Company has adopted an accounting policy to present government subsidies as other income. An optional accounting policy would be to net consideration received with the related expenses on the statement of operations.

#### *Impairment*

At June 30, 2020, our market capitalization was less than the book value of our equity which is a potential indicator of impairment. For the first quarter of 2020, management compared forecasted undiscounted cash flows to the book values of non-current assets and determined an impairment provision was not required. At June 30, 2020 management determined an impairment provision was not required as our outlook had improved since our initial assessment and our share price has increased. The impact of COVID-19 on DIRTT's Distribution Partners or the Company's operations may change cash flows and impact the recoverability of our assets in the future. Furthermore, COVID-19 and its related economic and social impacts are rapidly evolving and may affect our ability to accurately use historical sales trends and cash flows to forecast future results leading to additional estimation uncertainty with respect to impairment testing.

#### *Deferred tax assets (“DTA”)*

The Company’s ability to generate future taxable income may be impacted by COVID-19 which creates additional uncertainty regarding the recoverability of DTAs. To the extent additional taxable losses are generated, this may present significant unfavorable evidence of recoverability of DTAs and require the Company to recognize valuation allowances against DTA.

#### **4. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

On January 1, 2020, the Company adopted ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses in Financial Instruments*” and the subsequent amendments to the initial guidance issued in April 2019 within ASU No. 2019-04, May 2019 within ASU No. 2019-05 and February 2020 within ASU No. 2020-02 (“ASU 326”). These ASUs replace the incurred loss methodology with an expected loss methodology that is referred to as the Current Expected Credit Loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor in accordance with Topic 842 on Leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America (“GAAP”). The adoption of this standard did not have a significant impact on the Company, and no adjustment was required to retained earnings as of January 1, 2020 for the cumulative effect of adopting ASC 326.

On January 1, 2020, the Company adopted ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract” which amends ASC 350-40, “*Intangibles – Goodwill and Other – Internal-Use Software*” (“ASU 2018-15”). ASU 2018-15 clarifies that if a company has the contractual right to take possession of the hosted software at any time during the hosting period without incurring a significant penalty and if a company can feasibly run the software on its own hardware or contract with a third party unrelated to the vendor to host the software, the arrangement is not impacted by ASU 2018-15. If both these conditions are not met, ASU 2018-15 deems the hosting arrangement to be a service contract. The capitalization criteria for implementation costs of a service contract are consistent with the requirements of ASC 350-40 and impairment will be assessed consistent with policies applied to long lived assets. However, these capitalized implementation costs will be amortized over the life of the hosting arrangement and will be classified in the balance sheet and statement of operations in the same lines where software license costs are accounted for.

The Company adopted this amendment using the prospective transition approach, and no adjustments were required as a result of adoption.

#### **5. TRADE AND OTHER RECEIVABLES**

Accounts receivable are recorded at the invoiced amount, do not require collateral and do not bear interest. The Company estimates an allowance for credit losses using the lifetime expected credit loss at each measurement date taking into account historical credit loss experience as well as forward-looking information in order to establish rates for each class of financial receivable with similar risk characteristics. Adjustments to this estimate are recognized in the statement of operations.

In order to manage and assess our risk, management maintains credit policies that include regular review of credit limits of individual receivables and systematic monitoring of aging of trade receivables and the financial wellbeing of our customers. In addition, we acquired trade credit insurance effective April 1, 2020. At June 30, 2020, approximately 80% of our trade accounts receivable are insured, relating to accounts receivables from counterparties deemed creditworthy by the insurer and excluding accounts receivable from government entities, that have arisen since April 1, 2020. Our trade balances are spread over a broad Distribution Partner base, which is geographically dispersed. No Distribution Partner accounts for greater than 10% of revenue. In addition, and where possible, we collect a 50% deposit on sales, excluding government and certain other clients.

The Company's aged receivables were as follows:

	As at	
	June 30, 2020	December 31, 2019
Current	16,249	20,087
Overdue	777	2,401
	<b>17,026</b>	<b>22,488</b>
Less: expected credit losses	(742)	(84)
	<b>16,284</b>	<b>22,404</b>
Other receivables	64	402
Government subsidies receivable	2,771	—
Income tax receivable	2,162	2,135
	<b>21,281</b>	<b>24,941</b>

Due to the uncertainties associated with the COVID 19 pandemic as well as the disruption to businesses in North America, the overall credit quality of certain receivables declined at March 31, 2020 compared to January 1, 2020. As a result of this consideration and the Company's ongoing review of the credit quality of receivables, expected credit losses were increased by \$0.6 million during the quarter ended March 31, 2020. No further adjustments to our expected credit losses were required at June 30, 2020.

## 6. LONG-TERM DEBT AND OTHER LIABILITIES

On July 19, 2019, the Company entered into a C\$50.0 million senior secured revolving credit facility (the "RBC Facility") with the Royal Bank of Canada ("RBC"). The RBC Facility has a three-year term and can be extended for up to two additional years at the Company's option. Interest is calculated at the Canadian or U.S. prime rate with no adjustment, or the bankers' acceptance rate plus 125 basis points. The RBC Facility is subject to a minimum fixed charge coverage ratio of 1.15:1 and a maximum debt to Adjusted EBITDA ratio of 3.0:1 (earnings before interest, tax, depreciation and amortization, non-cash stock-based compensation, plus or minus extraordinary or unusual non-recurring revenue or expenses) calculated on a trailing four quarter basis (the "Covenants").

During the second quarter of 2020, the Company entered into a letter agreement with RBC (the "Letter Agreement"). Under the Letter Agreement, the Covenants are waived for the period April 1 to September 30, 2020 (the "Covenant Holiday Period"). During the Covenant Holiday Period, the Company is able to borrow to a maximum of 75% of eligible accounts receivable and 25% of eligible inventory, less priority payables, subject to an aggregate limit of C\$50.0 million including amounts borrowed under Leasing Facilities (as defined herein). During the Covenant Holiday Period the Company is required to maintain a cash balance of \$10.0 million if no loans are drawn under the facility, have Adjusted EBITDA of not less than a loss of \$7.0 and \$16.5 million for the twelve month periods ended June 30 and September 30, 2020, and make capital expenditures of no more than \$10.7 million during the Covenant Holiday Period. As at June 30, 2020, the RBC Facility was undrawn and the available borrowing base was \$12.8 million. The Company was in compliance with the covenants of the RBC Facility as at June 30, 2020.

During the three months ended June 30, 2020, the Company entered into a C\$5.0 million equipment leasing facility in Canada and a \$16.0 million equipment leasing facility in the United States (the "Leasing Facilities"), which are available for equipment expenditures and certain equipment expenditures already incurred. The Leasing Facilities, respectively, have seven and five-year terms and bear interest at 4.25% and 3.5%. The U.S. leasing facility is extendible for an additional year.

As at June 30, 2020, the Company received C\$3.6 million (\$2.6 million) of cash consideration under the leasing facility in Canada and commenced the lease term for the Canadian equipment expenditures. The associated financial liability is shown on the consolidated balance sheet in other current and other long-term liabilities. The Leasing Facilities are accounted for as finance leases as ownership of the equipment is expected to return to the Company at the end of the lease term. These transactions are not accounted for as a sale of the underlying equipment as the Company continues to control the equipment.

## 7. STOCK-BASED COMPENSATION

In May 2020, shareholders approved the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (the “2020 LTIP”) at the annual and special meeting of shareholders. The 2020 LTIP gives the Company the ability to award options, share appreciation rights, restricted share units, restricted shares, dividend equivalent rights granted in connection with restricted share units, vested share awards, and other share-based awards and cash awards to eligible employees, officers, consultants and directors of the Company and its affiliates. In accordance with the 2020 LTIP, the sum of (i) 5,850,000 common shares plus (ii) the number of common shares subject to stock options previously granted under the Company’s Amended and Restated Incentive Stock Option Plan (the “Stock Option Plan”) that, following May 22, 2020, expire or are cancelled or terminated without having been exercised in full have been reserved for issuance under the 2020 LTIP. As at June 30, 2020, 3,188,123 common shares were available for issuance under the 2020 LTIP.

The Company also maintains the DIRTT Environmental Solutions Ltd. Deferred Share Unit Plan for Non-Employee Directors pursuant to which deferred share units (“DSUs”) are granted to the Company’s non-employee directors.

Prior to the approval of the 2020 LTIP, the Company granted awards of options under the Stock Option Plan and awards of performance share units (“PSUs”) under the DIRTT Environmental Solutions Ltd. Performance Share Unit Plan (the “PSU Plan”). Following the approval of the 2020 LTIP, no further awards will be made under either the Stock Option Plan or the PSU Plan, but both remain in place to govern the terms of any awards that were granted pursuant to such plans and remain outstanding.

### *Stock-based compensation expense*

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Options	226	(1,811)	889	4,463
PSUs	6	61	(2)	79
DSUs	151	95	(43)	250
RSUs	42	—	42	—
	<b>425</b>	<b>(1,655)</b>	<b>886</b>	<b>4,792</b>

### *Options*

During the three and six months ended June 30, 2019, the Company accounted for the fair value of outstanding options at the end of the reporting period as a liability, with changes in the liability recorded through net income as a stock-based compensation fair value adjustment (“cash-settlement”). On October 9, 2019, following its listing on Nasdaq, the Company ceased cash-settlement of options and the associated liability accounting for options. For the three and six months ended June 30, 2019, the Company paid \$2.6 million and \$3.4 million respectively on the surrender of cash settled options. The following summarizes options granted, exercised, surrendered, forfeited and expired during the periods:

	Number of options	Weighted average exercise price C\$
<b>Outstanding at December 31, 2018</b>	<b>6,858,376</b>	<b>5.88</b>
Granted	1,095,182	7.84
Surrendered for cash	(1,651,008)	5.32
Exercised	(4,878)	3.62
Forfeited	(52,375)	4.90
Expired	(51,291)	4.17
<b>Outstanding at June 30, 2019</b>	<b>6,194,006</b>	<b>6.56</b>
<b>Outstanding at December 31, 2019</b>	<b>6,156,652</b>	<b>6.49</b>
Forfeited	(550,259)	6.79
<b>Outstanding at June 30, 2020</b>	<b>5,606,393</b>	<b>6.46</b>
<b>Exercisable at June 30, 2020</b>	<b>2,435,733</b>	<b>6.25</b>

Range of exercise prices of options outstanding at June 30, 2020:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price C\$	Number exercisable	Weighted average remaining life	Weighted average exercise price C\$
C\$4.01 – C\$5.00	22,537	4.39	4.12	—		
C\$5.01 – C\$6.00	677,733	1.39	5.76	677,733	1.39	5.76
C\$6.01 – C\$7.00	4,115,530	2.67	6.32	1,494,310	1.70	6.20
C\$7.01 – C\$8.00	790,593	3.88	7.84	263,690	3.88	7.84
<b>Total</b>	<b>5,606,393</b>			<b>2,435,733</b>		

#### *PSUs*

As at June 30, 2020, there were 197,471 PSUs outstanding (December 31, 2019 – 223,052) accounted for at a value of \$0.02 million (December 31, 2019 – \$0.2 million) which is included in other long-term liabilities on the balance sheet.

#### *DSUs*

As at June 30, 2020, there were 290,730 DSUs outstanding (December 31, 2019 – 132,597) accounted for at a value of \$0.4 million, which is included in current portion of other liabilities on the balance sheet (December 31, 2019 – \$0.4 million).

#### *RSUs*

On June 17, 2020, the Company granted 2,578,971 RSUs. Of the RSUs granted, 2,378,971 RSUs have an aggregate time-based vesting period of three years and vest one third every year over a three-year period from the date of grant. At the end of a three-year term, the RSUs will be settled by way of the provision of cash or shares to employees (or a combination thereof), at the discretion of the Company. The fair value of the RSUs was determined to be C\$1.89, which was the volume weighted average price of the Company's common shares on the grant date.

Of the RSUs granted, 200,000 RSUs were granted to an executive with service and performance-based conditions for vesting (the "Performance RSUs"). If the Company's share price increases to C\$3.00 for 20 consecutive trading days within three years of the grant date, then 50% (100,000) of the Performance RSUs will vest at the end of the three-year service period. If the Company's share price increases to C\$4.00 for 20 consecutive trading days within three years of the grant date, 100% (200,000) of the Performance RSUs will vest at the end of the three-year service period. If the Company's share price increases to C\$6.00 for 20 consecutive trading days within three years of the grant date, then 150% (300,000) of the Performance RSUs will vest at the end of the three-year service period. The grant date fair value of the Performance RSUs were valued using the Monte Carlo valuation method and determined to have a weighted average grant date fair value of C\$1.70.

#### *Dilutive instruments*

For the three and six months ended June 30, 2020, 5.6 million options (2019 – 1.1 million and 4.2 million) and nil and 2.7 million RSUs (2019 – nil) respectively, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive to the net income (loss) per share.

## **8. REVENUE**

In the following table, revenue is disaggregated by performance obligation and timing of revenue recognition. All revenue comes from contracts with customers. See Note 9 for the disaggregation of revenue by geographic region.

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Product	36,921	54,886	72,919	111,835
Transportation	3,545	5,856	7,540	12,215
License fees from Distribution Partners	299	531	605	1,063
Total product revenue	40,765	61,273	81,064	125,113
Installation and other services	1,390	2,818	2,072	4,039
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

DIRTT sells its products and services pursuant to fixed-price contracts, which generally have a term of one year or less. The transaction price used in determining the amount of revenue to recognize is based upon agreed contractual terms with the customer and is not subject to variability.

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
At a point in time	40,466	60,742	80,459	124,050
Over time	1,689	3,349	2,677	5,102
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

Revenue recognized at a point in time represents the majority of the Company's sales and revenue is recognized when a customer obtains legal title to the product, which is when ownership of products is transferred to, or services are delivered to the contract counterparty. Revenue recognized over time is limited to installation and other services provided to customers and is recorded as performance obligations which are satisfied over the term of the contract.

#### **Contract Liabilities**

	As at		
	June 30, 2020	December 31, 2019	December 31, 2018
Customer deposits	4,423	2,436	6,746
Deferred revenue	833	1,131	955
Contract liabilities	<b>5,256</b>	<b>3,567</b>	<b>7,701</b>

Contract liabilities primarily relate to deposits received from customers and deferred revenue from license subscriptions. The balance of contract liabilities was higher as at June 30, 2020 compared to December 31, 2019 mainly due to the timing of orders and payments. Contract liabilities as at December 31, 2019 and 2018, respectively, totaling \$2.7 million and \$7.2 million were recognized as revenue during the year-to-date periods ended June 30, 2020 and 2019, respectively.

### *Sales by Industry*

The Company periodically reviews the growth of product and transportation revenue by vertical market to evaluate the success of industry-specific sales initiatives. The nature of products sold to the various industries is consistent and therefore review is focused on sales performance.

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Commercial	25,096	39,189	53,370	81,338
Healthcare	7,417	10,346	12,480	23,260
Government	3,960	4,313	7,087	8,412
Education	3,993	6,894	7,522	11,040
License fees from Distribution Partners	299	531	605	1,063
Total product and transportation revenue	<b>40,765</b>	<b>61,273</b>	<b>81,064</b>	<b>125,113</b>
Installation and other services	1,390	2,818	2,072	4,039
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

### **9. SEGMENT REPORTING**

The Company has one reportable and operating segment and operates in two principal geographic locations – Canada and the United States. Revenue continues to be derived almost exclusively from projects in North America and predominantly from the United States, with periodic international projects from North American Distribution Partners. The Company’s revenue from operations from external customers, based on location of operations, and information about its non-current assets, are detailed below.

#### *Revenue from external customers*

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Canada	4,341	8,771	10,327	15,839
U.S.	37,814	55,320	72,809	113,313
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

#### *Non-current assets, excluding deferred tax assets*

	<u>As at</u>	
	<u>June 30, 2020<sup>1</sup></u>	<u>December 31, 2019<sup>1</sup></u>
Canada	43,335	47,892
U.S.	31,286	29,286
	<b>74,621</b>	<b>77,178</b>

(1) Amounts include property, plant and equipment, capitalized software, operating lease right-of-use assets, goodwill and other assets.

### **10. INCOME TAXES**

Certain stock based compensation expense is not deductible in the calculation of income taxes in Canada. Accordingly, the fair value adjustment recorded during the period ended June 30, 2019 impacted our effective tax rate during that period.

## 11. COMMITMENTS

As at June 30, 2020, the Company had outstanding purchase obligations of approximately \$5.5 million related to inventory and property, plant and equipment purchases. As at June 30, 2020, the Company had undiscounted operating lease liabilities of \$21.7 million.

During 2019, the Company entered into a lease agreement with a term of 25 years, expected to commence in the second half of 2020, associated with the construction of a new combined tile and millwork facility in Rock Hill, South Carolina ("South Carolina Plant"). Undiscounted rent obligations associated with this lease are \$28.9 million.

During the first quarter of 2020, the Company entered into a lease agreement with a term of 12 years, expected to commence in the second half of 2020, associated with a new DIRT Experience Center ("DXC") in Plano, Texas. Undiscounted rent obligations associated with this lease are \$6.3 million.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited interim condensed consolidated financial statements and related notes and other financial information appearing in this Quarterly Report. This discussion contains forward-looking statements reflecting our current expectations and estimates and assumptions concerning events and financial trends that may affect our future operating results or financial position. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those described under the headings "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this Quarterly Report.*

*We have revised our calculation of Adjusted EBITDA and Adjusted Gross Profit, non-GAAP financial measures, for the presented periods compared to the comparable prior periods. For additional information, see "– Non-GAAP Financial Measures – EBITDA and Adjusted EBITDA for the Three and Six Months Ended June 30, 2020 and 2019." and "– Non-GAAP Financial Measures – Adjusted Gross Profit and Adjusted Gross Profit Margin for the Three and Six Months Ended June 30, 2020 and 2019."*

### Summary of Financial Results

- Revenue for the quarter ended June 30, 2020 was \$42.2 million, a decline of \$21.9 million or 34% from \$64.1 million for the quarter ended June 30, 2019. Revenue decreased by 36% to \$83.1 million for the six months ended June 30, 2020, compared to \$129.2 million for the six months ended June 30, 2019. We believe the decline is principally related to the ongoing effects of disruptions in our sales activity levels stemming from the transitional state of our commercial function as we implement our strategic plan combined with project delays or deferrals due mainly to impacts of the COVID-19 pandemic on construction schedules.
- Gross profit for the quarter ended June 30, 2020 was \$14.2 million or 33.7% of revenue, a decline of \$10.2 million or 42% from \$24.4 million or 38.1% of revenue for the quarter ended June 30, 2019. Gross profit margin decreased to 30.7% for the six months ended June 30, 2020, compared to 37.2% for the six months ended June 30, 2019. This reduction was attributable to our decline in revenues and the impact of fixed costs on lower revenues and during the three and six month periods ended June 30, 2020, we incurred \$0.5 million and \$1.0 million of severance costs, respectively, offset by a \$1.2 million timber provision reversal in the second quarter of 2020, following the validation of an in situ remediation solution that enabled us to meet certain building code specifications under which certain projects were sold, thereby significantly reducing the prior estimated timber liability. Additionally, the three and six month periods ended June 30, 2019 include \$0.5 million and \$2.0 million of costs, respectively, incurred to mitigate future tile warping.
- Adjusted Gross Profit (see "– Non-GAAP Financial Measures") for the quarter ended June 30, 2020 was \$16.1 million or 38.2% of revenue, a \$10.9 million or 40% decline from \$27.0 million or 42.1% of revenue for the quarter ended June 30, 2019. Adjusted Gross Profit (see "– Non-GAAP Financial Measures") for the six months ended June 30, 2020 was \$31.7 million or 38.1% of revenue, a \$21.1 million or 40% decline from \$52.8 million or 40.9% of revenue for the six months ended June 30, 2019. Declines in Adjusted Gross Profit for both periods are for the reasons noted above. Excluded from Adjusted Gross Profit in the six months ended June 30, 2020 are \$2.0 million of overhead costs associated with operating at lower than normal capacity levels, which were charged directly and separately to cost of sales rather than as a cost attributable to production. Between January and April, 2020, we reduced our manufacturing workforce by 25% to bring labor capacity in line with current activity levels.
- Net income for the quarter ended June 30, 2020 was \$0.3 million, compared to net income of \$2.6 million for the quarter ended June 30, 2019. The decrease in net income is attributable to the above noted reduction in gross profit and a \$0.5 million increase in foreign exchange loss, partially offset by a \$2.5 million reduction in operating expenses and \$4.3 million of government subsidies. The reduction in operating expenses reflects lower commissions on reduced sales activities, the combination of \$1.3 million of costs related to our sales and marketing plan and \$0.4 million of costs related to the listing of our common shares on Nasdaq in 2019 that did not recur, other cost reductions both deliberate and as a consequence of the pandemic, offset by higher legal costs of \$0.9 million and an increase in stock based compensation of \$2.1 million.
- Net loss increased to \$5.0 million for the six months ended June 30, 2020 from \$2.7 million for the six months ended June 30, 2019. Compared to the prior year period, the increase in net loss is attributable to the above noted reduction in gross profit, partially offset by a \$10.5 million reduction in operating costs, government subsidies of \$4.3 million, increased foreign exchange gains of \$2.3 million and \$1.2 million of income tax recoveries.

The reduction in operating expenses reflects lower commissions on reduced sales activities, the combination of \$1.3 million of costs related to our sales and marketing plan, \$1.1 million related to the listing of our common shares on Nasdaq and \$2.6 million of reorganization costs in 2019 that did not recur, other cost reductions both deliberate and as a consequence of the COVID-19 pandemic and a \$3.9 million decrease in stock based compensation, offset by higher legal costs of \$3.0 million.

- Adjusted EBITDA (see “– Non-GAAP Financial Measures”) for the quarter ended June 30, 2020 was \$0.3 million or 0.6% of revenue, a decline of \$5.8 million from \$6.0 million, or 9.4% of revenue, for the quarter ended June 30, 2019. Adjusted EBITDA for the six months ended June 30, 2020 was a \$5.2 million loss or (6.3)% of revenue, a decline of \$19.0 million from \$13.8 million, or 10.7% of revenue, for the six months ended June 30, 2019. Reductions for the quarter and year-to-date periods were due to the above noted reasons. We changed our calculation of Adjusted EBITDA beginning in the fourth quarter of 2019 to exclude the impacts of foreign exchange to improve year-on-year comparability of Adjusted EBITDA. We also changed our calculation of Adjusted EBITDA beginning in the second quarter of 2020 to exclude the impact of government subsidies.

## Outlook

On November 12, 2019, DIRTT unveiled a four-year strategic plan for the Company, based on three key pillars: commercial execution, manufacturing excellence and innovation. This plan laid out a roadmap to transform a founder-led start-up into a professionally managed operating company. Our long-term objective is to scale our operations to profitably capture the significant market opportunity created by driving conversion from conventional construction to DIRTT’s process of modular, prefabricated interiors.

In the second quarter of 2020, the COVID-19 pandemic continued to impact our business, specifically causing job site closures in certain jurisdictions, schedule delays resulting from labor restrictions and supply chain shortages on job sites and project deferrals due to economic uncertainty. Late in the first quarter of 2020 and early in the second quarter of 2020, we took decisive actions to ensure employee safety, to right-size our plant labor capacity and our overall cost structure consistent with current activity levels and to increase our available liquidity. These steps allowed us to continue moving forward with our strategic plan, while re-prioritizing the execution of certain aspects of our commercial strategy to reduce or defer specific costs and capital expenditures while still realizing the majority of the benefits derived from the plan.

Second quarter 2020 revenue of \$42.2 million was slightly higher than first quarter 2020 revenue. While construction activity on existing projects has continued, the pace of construction has slowed with new social distancing and infection control requirements constraining onsite labor. As DIRTT projects are typically installed at the later stage of the construction process, these job site delays impacted our second quarter results, although the exact amount is difficult to quantify given our short lead times. We estimate approximately \$3.7 million of projects that we were confident of second quarter delivery at March 15 were deferred to future quarters in addition to opportunities that we believe would normally have come to fruition that were delayed or deferred, the amount of which is not possible to quantify. These delays are expected to continue to impact us through the remainder of 2020 as the industry adjusts to the COVID-19 pandemic and the exact timing of the completion of these projects is uncertain.

We believe that the long-term impacts of the COVID-19 pandemic on our business have the potential to be positive, accelerating the shift to modular construction and DIRTT’s product suite. Forced reductions in onsite labor due to social distancing may adversely impact construction schedules and cost, accelerating the trend towards offsite manufacturing and consolidation of subtrade activities. Additionally, increased focus on infection control and risk mitigation in the office environment has the potential to require reduced density, increased use of private offices and other separation strategies all of which could increase the per square foot content of DIRTT solutions. At the same time, work environments will need to evolve with the circumstances potentially increasing demand for the flexibility inherent in the modular aspect of DIRTT’s offerings. We would anticipate all these factors to favorably affect our healthcare and education clients, in addition to commercial clients.

The realization of any potential benefits is uncertain and we caution that the near and mid-term impacts of COVID-19 remain highly uncertain and regionally dependent. While the re-opening of economies has commenced in many jurisdictions, the resurgence in infection rates could delay or even reverse these re-opening activities, adversely affecting interior construction activity. Our customers are taking a measured approach to modifying their offices in reaction to COVID-19, therefore any potential positive impact on our sales would be anticipated to follow that modulated timing. In addition, COVID-19 has had a negative financial impact on many healthcare organizations, potentially materially reducing their construction budgets for new facilities and facility renovations. It has also caused a pause in some building programs as healthcare providers re-examine their patient delivery models and the impact on their physical space. Educational institutions are also facing budget challenges. Finally, a decline in overall commercial construction activity from a general economic contraction could negatively impact our sales.

As the timing and pace of economic recovery and the fulsome effect of COVID-19 on the economy remains uncertain, we are actively managing our cost base. We have benefited from both deliberate cost reductions as well as deferrals that are a direct result of travel and other such shelter in place restrictions. As economies begin to reopen, we expect that we will begin to incur travel and entertainment expenditures as in-person sales activities resume, although the timing and amount of which is indeterminable at this time.

Within the commercial function, we continued to broaden our Distribution Partner network, and welcomed five new Distribution Partners in the United States since our last reporting date, one in each of our west, south and north east regions and two in the central region, and have ended our relationships with three underperforming Distribution Partners. In an innovative response to travel restrictions, we successfully onboarded these Distribution Partners via virtual training programs. We hosted several virtual client tours of DIRTT in June and expect to leverage these tours aggressively within the sales organization in the months to come. In Chicago, construction of our DIRTT Experience Center continued and we anticipate that it will be ready for in-person client tours, with enhanced safety protocols, in the third quarter of 2020.

From a systems perspective, we successfully rolled out phase one of our Client Relationship Management System which coincides with the launch of DIRTT's first ever comprehensive strategic marketing campaign, "Make space for possibilities™". This campaign seeks to demonstrate how DIRTT solutions meet the evolving needs of individuals, teams and organizations seeking greater adaptability within their workplaces and real estate portfolios. We remain on schedule to deliver a total cost of ownership tool, which is expected to go live in the fourth quarter of 2020. These initiatives are expected to significantly enhance our sales efforts by demonstrating to potential end-customers DIRTT's value proposition relative to conventional construction.

Within our manufacturing operations, our safety culture is now well ingrained resulting in a recordable incident rate for the first half of the year below 1.0 and more than 75% below industry standards. The next stage of improvement is focused on driving sustained quality improvements. We are pleased to note that we have seen continued improvements in quality and, in the second quarter of 2020, all of our plants exceeded their performance goals of a 50% reduction in deficiencies relative to 2019. We are now embarking on the process of improving the efficiency and cost effectiveness of our manufacturing operations. In the second quarter of 2020, we successfully piloted one-piece flow manufacturing in our Savannah factory which achieved significant efficiency improvements in our aluminum frame manufacturing process. We are now expanding these processes to our other plants. We are also in the process of implementing improvements within our supply chain and procurement processes and the benefits are expected to be realized over time as lower cost material flows through our raw material inventory.

At our South Carolina Plant, construction of the base building is largely complete and in July 2020 we received our first shipment of equipment. We expect to receive the balance of the equipment in the second half of 2020 and are on track for commissioning for this facility in the first half of 2021.

Our focus on liquidity and cash preservation has been effective. In the second quarter, we completed the definitive documentation for our previously announced six-month covenant holiday on our credit facility and drew C\$3.6 million (\$2.6 million) of the Canadian leasing facility to fund 2019 Canadian equipment purchases. In the event activity levels remain at current levels, we will likely seek an extension to the covenant holiday or replace our facility with an asset backed facility. The U.S. leasing facility will be used to fund the equipment purchases for our new South Carolina Plant, with funding of the equipment, including \$4.7 million of deposits paid in 2019, now expected in the late third and fourth quarter when the equipment is delivered and accepted on site. We also qualified for an approximately \$4.3 million taxable wage subsidy under the Canadian Emergency Wage Subsidy program from the Canadian government for the April to June period. Of this amount, \$1.6 million was received in June with the balance expected to be received in the third quarter. As a result, we finished the second quarter with net working capital of \$52.2 million, including cash balances of \$44.6 million, compared to \$51.0 million of net working capital including \$43.5 million of cash at March 31, 2020.

## **Non-GAAP Financial Measures**

### ***Note Regarding Use of Non-GAAP Financial Measures***

Our condensed consolidated interim financial statements are prepared in accordance with GAAP. These GAAP financial statements include non-cash charges and other charges and benefits that we believe are unusual or infrequent in nature or that we believe may make comparisons to our prior or future performance difficult.

As a result, we also provide financial information in this Quarterly Report that is not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. Management uses these non-GAAP financial measures in its review and evaluation of the financial performance of the Company. We believe that these non-GAAP financial measures also provide additional insight to investors and securities analysts as supplemental information to our GAAP results and as a basis to compare our financial performance period over period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt and debt facilities, or foreign exchange movements), asset base (depreciation and amortization), the impact of under-utilized capacity on gross profit, tax consequences and stock-based compensation. In addition, management bases certain forward-looking estimates and budgets on non-GAAP financial measures, primarily Adjusted EBITDA.

In the fourth quarter of 2019, we removed the impact of all foreign exchange from Adjusted EBITDA. Foreign exchange gains and losses can vary significantly period-to-period due to the impact of changes in the U.S. and Canadian dollar exchange rates on foreign currency denominated monetary items on the balance sheet and are not reflective of the underlying operations of the Company. We have presented a reconciliation to our prior calculation of Adjusted EBITDA for the quarters presented. Additionally, since the fourth quarter of 2019, we have excluded from Adjusted Gross Profit costs associated with under-utilized capacity. Fixed production overheads are allocated to inventory on the basis of normal capacity of the production facilities. In periods where production levels are abnormally low, unallocated overheads are recognized as an expense in the period in which they are incurred. In the second quarter of 2020, we also removed the impact of government subsidies from Adjusted EBITDA.

Reorganization expenses, government subsidies, depreciation and amortization, stock-based compensation expense, and foreign exchange gains and losses are excluded from our non-GAAP financial measures because management considers them to be outside of the Company's core operating results, even though some of those expenses may recur, and because management believes that each of these items can distort the trends associated with the Company's ongoing performance. We believe that excluding these expenses provides investors and management with greater visibility to the underlying performance of the business operations, enhances consistency and comparativeness with results in prior periods that do not, or future periods that may not, include such items, and facilitates comparison with the results of other companies in our industry.

The following non-GAAP financial measures are presented in this Quarterly Report, and a description of the calculation for each measure is included.

<b>Adjusted Gross Profit, as previously presented</b>	Gross profit before deductions for depreciation and amortization
<b>Adjusted Gross Profit</b>	Gross profit before deductions for costs of under-utilized capacity, depreciation and amortization
<b>Adjusted Gross Profit Margin</b>	Adjusted Gross Profit divided by revenue
<b>EBITDA</b>	Net income before interest, taxes, depreciation and amortization
<b>Adjusted EBITDA, as previously presented</b>	EBITDA adjusted for non-cash foreign exchange gains or losses on debt revaluation; impairment expenses; stock-based compensation expense; reorganization expenses; and any other non-core gains or losses
<b>Adjusted EBITDA</b>	EBITDA adjusted for foreign exchange gains or losses; impairment expenses; stock-based compensation expense; government subsidies; reorganization expenses; and any other non-core gains or losses
<b>Adjusted EBITDA Margin</b>	Adjusted EBITDA divided by revenue

You should carefully evaluate these non-GAAP financial measures, the adjustments included in them, and the reasons we consider them appropriate for analysis supplemental to our GAAP information. Each of these non-GAAP financial measures has important limitations as an analytical tool due to exclusion of some but not all items that affect the most directly comparable GAAP financial measures. You should not consider any of these non-GAAP financial measures in isolation or as substitutes for an analysis of our results as reported under GAAP. You should also be aware that we may recognize income or incur expenses in the future that are the same as, or similar to, some of the adjustments in these non-GAAP financial measures. Because these non-GAAP financial measures may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

**EBITDA and Adjusted EBITDA for the Three and Six Months Ended June 30, 2020 and 2019**

The following table presents a reconciliation for the second quarter year-to-date results of 2020 and 2019 of EBITDA and Adjusted EBITDA to our net income (loss), which is the most directly comparable GAAP measure for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
<b>Net income (loss) for the period</b>	283	2,611	(5,045)	(2,654)
Add back (deduct):				
Interest Expense	61	25	96	74
Interest Income	(57)	(38)	(195)	(92)
Income Tax Recovery	124	1,722	(1,202)	1,708
Depreciation and Amortization	2,761	2,940	5,893	6,335
<b>EBITDA</b>	<b>3,172</b>	<b>7,260</b>	<b>(453)</b>	<b>5,371</b>
Stock-based Compensation Expense	425	(1,655)	886	4,792
Non-cash Foreign Exchange Gain on Debt Revaluation	—	—	—	(211)
Government Subsidies	(4,284)	—	(4,284)	—
Reorganization Expense	—	—	—	2,639
<b>Adjusted EBITDA, as previously presented<sup>(1)</sup></b>	<b>(687)</b>	<b>5,605</b>	<b>(3,851)</b>	<b>12,591</b>
Other Foreign Exchange (Gains) Losses	960	441	(1,359)	1,171
<b>Adjusted EBITDA</b>	<b>273</b>	<b>6,046</b>	<b>(5,210)</b>	<b>13,762</b>
<b>Net Income (Loss) Margin<sup>(2)</sup></b>	<b>0.7%</b>	<b>4.1%</b>	<b>(6.1%)</b>	<b>(2.1%)</b>
<b>Adjusted EBITDA Margin, as previously presented<sup>(1)</sup></b>	<b>(1.6%)</b>	<b>8.7%</b>	<b>(4.6%)</b>	<b>9.7%</b>
<b>Adjusted EBITDA Margin</b>	<b>0.6%</b>	<b>9.4%</b>	<b>(6.3%)</b>	<b>10.7%</b>

<sup>(1)</sup> As discussed previously, in prior filings, only foreign exchange movements on debt revaluation was included in Adjusted EBITDA.

<sup>(2)</sup> Net income (loss) divided by revenue.

For the three months ended June 30, 2020, Adjusted EBITDA and Adjusted EBITDA Margin decreased to \$0.3 million and 0.6% from \$6.0 million and 9.4% in the same period of 2019. This reflects a \$10.9 million decrease in Adjusted Gross Profit and \$0.9 million of higher legal costs in 2020. These reductions in Adjusted EBITDA were partially offset by reduced commissions on lower revenues and decreased spending on travel, meals and entertainment, including tradeshows due to COVID-19 related reductions as well as cost reduction initiatives. In 2019 we incurred \$1.3 million of consulting costs incurred for our sales and marketing plan and \$0.4 million of costs related to the listing of the Company's common shares on Nasdaq in 2019 that did not recur in 2020.

For the six months ended June 30, 2020, Adjusted EBITDA and Adjusted EBITDA Margin decreased to a \$5.2 million loss and (6.3)% from \$13.8 million and 10.7% in the same period of 2019. This decrease reflects a \$19.0 million decrease in Adjusted Gross Profit and \$2.0 million of costs of underutilized capacity, discussed below, \$3.0 million of higher legal costs in 2020 and a \$0.6 million increase to our provision for expected credit losses. These decreases were partially offset by lower commissions, and reduced travel, meals and entertainment, including tradeshows due to COVID-19 related reductions as well as cost reduction initiatives. In 2019 we incurred \$1.3 million related to third party sales and marketing consulting fees and \$1.1 million related to listing the Company's common shares on Nasdaq that did not recur in 2020.

**Adjusted Gross Profit and Adjusted Gross Profit Margin for the Three and Six Months Ended June 30, 2020 and 2019**

The following table presents a reconciliation for the three and six months ended June 30, 2020 and 2019 of Adjusted Gross Profit to our gross profit, which is the most directly comparable GAAP measure for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
<b>Gross profit</b>	<b>14,216</b>	<b>24,421</b>	<b>25,531</b>	<b>48,025</b>
<b>Gross profit margin</b>	<b>33.7%</b>	<b>38.1%</b>	<b>30.7%</b>	<b>37.2%</b>
Add: Depreciation and amortization expense	1,908	2,559	4,169	4,739
<b>Adjusted Gross Profit, as previously presented</b>	<b>16,124</b>	<b>26,980</b>	<b>29,700</b>	<b>52,764</b>
Add: Costs of under-utilized capacity	—	—	2,010	—
<b>Adjusted Gross Profit</b>	<b>16,124</b>	<b>26,980</b>	<b>31,710</b>	<b>52,764</b>
<b>Adjusted Gross Profit Margin, as previously presented</b>	<b>38.2%</b>	<b>42.1%</b>	<b>35.7%</b>	<b>40.9%</b>
<b>Adjusted Gross Profit Margin</b>	<b>38.2%</b>	<b>42.1%</b>	<b>38.1%</b>	<b>40.9%</b>

Gross profit and gross profit margin decreased to \$14.2 million or 33.7% for the three months ended June 30, 2020, from \$24.4 million or 38.1% for the three months ended June 30, 2019. Gross profit and gross profit margin decreased to \$25.5 million or 30.7% for the six months ended June 30, 2020, from \$48.0 million or 37.2% for the six months ended June 30, 2019. Adjusted Gross Profit and Adjusted Gross Profit Margin decreased to \$16.1 million or 38.2% for the three months ended June 30, 2020, from \$27.0 million or 42.1% for the three months ended June 30, 2019. Adjusted Gross Profit and Adjusted Gross Profit Margin decreased to \$31.7 million or 38.1% for the six months ended June 30, 2020, from \$52.8 million or 40.9% for the six months ended June 30, 2019. The decreases are largely due to reduced fixed cost leverage due to reductions in revenues and excess labor capacity prior to headcount reductions discussed below combined with approximately \$0.5 million and \$1.0 million of related severance costs in the second quarter and year to date periods of 2020, respectively.

During the fourth quarter of 2019, we determined that we were carrying abnormal excess capacity in our manufacturing facilities as a result of the slowdown in sales and determined certain production overheads should be directly expensed in cost of sales, representing production overheads that were not attributable to production. In the first quarter of 2020, we separately classified \$2.0 million as costs related to our under-utilized capacity (5% of gross profit margin) in cost of sales. We took steps to manage our excess capacity, including the reduction in staffing by 14%, with a further 12% reduction in April 2020, and the undertaking of planned factory curtailments. The staffing reductions realigned our capacity with then expected activity levels; however, our fixed costs will affect our Adjusted Gross Profit Margin which we expect to remain below historical percentages until sales improve. Prospectively, we expect our fixed cost of sales to be approximately \$6.0 million per quarter, and remaining costs of sales to be approximately 54% of revenues comprising materials which are variable, and labor which is quasi-variable as we match our shifts to order volumes.

Following the completion of third-party testing in 2019, we determined that timber included in certain projects installed between 2016 and 2019 potentially did not meet the fire-retardant specifications under which the projects were sold. As a result, we recorded a \$2.5 million provision in the fourth quarter of 2019 and have been contacting customers to determine whether remedial actions are required. In the second quarter of 2020, we identified and validated an in-situ solution that we believe will meet the fire-retardant specification under which the projects were sold. As a result, we have reduced the associated provision to \$1.2 million which represents expected costs to prepare impacted sites and apply the in-situ solution. During the six months ended June 30, 2020, we incurred \$0.1 million of costs associated with remediating previously installed timber projects, which were recorded against the provision.

In the first six months of 2019 we incurred approximately \$2.0 million of costs, representing 1.6% of gross profit margin, to mitigate future warping of our tiles. In the first quarter of 2020 we commissioned new equipment to prime our medium density fiberboard (“MDF”). The use of primed MDF addressed the tile warping issues that occurred in late 2018 and early 2019 due to higher than expected moisture absorption. Additionally, our costs associated with remediating deficiencies decreased in the first half of 2020.

## Results of Operations

Three and Six Months Ended June 30, 2020, Compared to Three and Six Months Ended June 30, 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
Revenue	42,155	64,091	83,136	129,152
Gross Profit	14,216	24,421	25,531	48,025
Gross Profit Margin	33.7%	38.1%	30.7%	37.2%
Operating Expenses				
Sales and Marketing	6,177	9,543	13,585	17,330
General and Administrative	6,194	6,856	14,019	13,753
Operations Support	2,251	2,870	4,783	5,352
Technology and Development	2,082	2,046	4,247	4,163
Stock-based Compensation	425	(1,655)	886	4,792
Reorganization	—	—	—	2,639
Total Operating Expenses	17,129	19,660	37,520	48,029
Operating Income (Loss)	(2,913)	4,761	(11,989)	(4)
Operating Margin	(6.9%)	7.4%	(14.4%)	0.0%

### Revenue

Revenue reflects sales to our Distribution Partners for resale to their clients and, in limited circumstances, our direct sales to clients. Our revenue is generally affected by the timing of when orders are executed, particularly large orders, which can add variability to our financial results and shift revenue between quarters.

The following table sets forth the contribution to revenue of our DIRTT product and service offerings:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
Product	36,921	54,886	72,919	111,835
Transportation	3,545	5,856	7,540	12,215
License fees from Distribution Partners	299	531	605	1,063
Total product revenue	40,765	61,273	81,064	125,113
Installation and other services	1,390	2,818	2,072	4,039
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

Revenue decreased in the three and six months ended June 30, 2020 by \$21.9 million and \$46.1 million or 34% and 36% respectively compared to the same periods of 2019. Revenue decreased due to several factors as discussed above in “– Summary of Financial Results” and “– Outlook”. We have been subject to a disruption in sales activity levels particularly as it relates to larger projects, as discussed below, beginning in 2018 and carrying through the current quarter. This disruption stems from the distraction of significant management changes during 2018 on a long sales cycle combined with the immature and transitional state of our sales and marketing function, which limited our ability to take advantage of growth opportunities in our market. Due to the long sales cycle, particularly for larger projects which can be two years or more, this had a corresponding negative effect on our revenue, especially in the last half of 2019 and continuing into the first half of 2020. This effect has lasted longer than we had anticipated. We are in the process of making substantial improvements to our commercial function, as outlined in our strategic plan, including building an appropriate organizational structure, improving the effectiveness of our existing sales force, attracting new sales talent, establishing strategic marketing and lead generation functions, as well as expanding and better supporting our Distribution Partner network. While we believe these actions are critical to driving long-term, sustainable growth, these actions did not have a measurable effect on 2020 revenues to date.

Our revenues were also impacted by the COVID-19 pandemic. We estimate approximately \$3.7 million of projects that we were highly confident of second quarter delivery at March 15 were deferred to future quarters in addition to opportunities that would normally have come to fruition that were delayed or deferred, the amount of which is not possible to quantify. These project delays were primarily a result of construction site restrictions imposed by local regulatory authorities, including the effects of social distancing measures. It is uncertain when these projects will be delivered and it is highly likely that future projects will also experience similar delays as the pandemic runs its course. While we have not experienced any material cancellations of projects that were underway, it is uncertain as to the impact of the pandemic on future projects that are either in the planning or conceptual stage. See “Risk Factors”.

Installation and other services revenue decreased \$1.4 million for the three months ended June 30, 2020 compared to the same period in 2019 and decreased \$2.0 million for the six months ended June 30, 2020 compared to the same period in 2019. The changes in installation revenue are primarily due to the timing of projects and overall sales activity, including the impacts of the COVID-19 pandemic. Except in limited circumstances, our Distribution Partners, rather than the Company, perform installation services, and accordingly, we are not anticipating significant growth in this revenue stream.

Our success is partly dependent on our ability to profitably develop our Distribution Partner network to expand our market penetration and ensure best practices are shared across local markets. We currently have 80 Distribution Partners, servicing multiple locations. We recently added five Distribution Partners, one in each of the west, south and north east, and two in the central regions of the United States, and have ended our relationships with certain underperforming Distribution Partners. Our clients, as serviced primarily through our Distribution Partners, exist within a variety of industries, including healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, technology and hospitality.

We periodically analyze our revenue growth by vertical markets in the defined markets of commercial, healthcare, government and education. The following table presents our product and transportation revenue by vertical market:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
Commercial	25,096	39,189	53,370	81,338
Healthcare	7,417	10,346	12,480	23,260
Government	3,960	4,313	7,087	8,412
Education	3,993	6,894	7,522	11,040
License fees from Distribution Partners	299	531	605	1,063
<b>Total product and transportation revenue</b>	<b>40,765</b>	<b>61,273</b>	<b>81,064</b>	<b>125,113</b>
Installation and other services	1,390	2,818	2,072	4,039
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(in %)		(in %)	
Commercial	62	65	67	65
Healthcare	18	17	15	19
Government	10	7	9	7
Education	10	11	9	9
<b>Total Product Revenue<sup>(1)</sup></b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

(1) Excludes license fees from Distribution Partners

Revenue decreased by 34% and 36% respectively in the three and six months ended June 30, 2020 over the same periods in 2019 and was driven primarily by decreased commercial sales which reflects the disruption in sales activity levels noted above. Commercial revenues were lower due to the completion of a major project in the first half of 2019 that was not replaced and the impact of COVID-19 on construction activity. Decreased healthcare sales in the first half of 2020 reflect the completion of several major healthcare projects that were not replaced in 2020.

Revenue continues to be derived almost exclusively from projects in North America and predominantly from the United States, with periodic international projects from North American Distribution Partners. The following table presents our second quarter and year-to-date revenue dispersion by geography:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$ in thousands)		(\$ in thousands)	
Canada	4,341	8,771	10,327	15,839
U.S.	37,814	55,320	72,809	113,313
	<b>42,155</b>	<b>64,091</b>	<b>83,136</b>	<b>129,152</b>

### *Sales and Marketing Expenses*

Sales and marketing expenses decreased \$3.4 million and \$3.7 million to \$6.2 million and \$13.6 million for the three and six months ended June 30, 2020, from \$9.5 million and \$17.3 million for the three and six months ended June 30, 2019. The decreases were largely related to a reduction in commission expenses on lower revenues and lower travel, meals and entertainment expenses in the three and six months ended June 30, 2020 due to restrictions on travel as a result of COVID-19, the cancellation of Connex and other tradeshows as well as continued attention to cost discipline. As economies re-open, we anticipate travel and entertainment expenses to increase over current levels, the timing and amount of which, however, are indeterminate. Included in sales and marketing expenses in the three months ended June 30, 2019 was \$1.3 million of consulting costs related to our sales and marketing plan that did not recur in 2020.

Our sales and marketing efforts continue to focus on establishing the appropriate sales organization and personnel, significantly improving our marketing approach and driving returns on sales and marketing expenditures, as outlined in our strategic plan. In light of uncertainty caused by the COVID-19 pandemic, we have prioritized critical hires that are necessary to continue to advance our overall strategy, including the implementation of necessary systems and tools while ensuring appropriate cost control and cash conservation.

### *General and Administrative Expenses*

General and administrative expenses (“G&A”) decreased \$0.7 million to \$6.2 million for the three months ended June 30, 2020 from \$6.9 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, general and administrative expenses increased \$0.2 million to \$14.0 million from \$13.8 million for the six months ended June 30, 2019.

For the three months ended June 30, 2020, the decrease was the result of incurring \$0.9 million of higher legal costs, offset by expense reductions, and during the second quarter of 2019 we incurred \$0.4 million of professional fees related to the listing of our common shares on Nasdaq. For the six months ended June 30, 2020, the increase was the result of incurring \$3.0 million of higher legal costs and recording a \$0.6 million of expected credit losses against our accounts receivable balances. These costs were offset by expense reductions and during the six months ended June 30, 2019 we incurred \$1.1 million of professional fees related to the listing of our common shares on Nasdaq.

### *Operations Support Expenses*

Operations support expenditures include the fixed costs associated with delivery and project management of DIRTT solutions. Operations support expenses decreased by \$0.6 million to \$2.3 million from \$2.9 million in the prior year period. Operations support costs decreased \$0.6 million to \$4.8 million for the six months ended June 30, 2020 from \$5.4 million for the same period of 2019. In the three and six months ended June 30, 2019 we incurred \$0.7 million and \$1.1 million of consulting costs, respectively, to assist with the rectification of the tile warping issue. Decreases in consulting costs were partially offset by increases in personnel costs due to increased headcount to better support project execution and support of our Distribution Partners.

### *Technology and Development Expenses*

Technology and development expenses relate to non-capitalizable costs associated with our product and software development teams and are primarily comprised of salaries and benefits of technical staff.

Technology and development expenses increased by \$0.1 million to \$2.1 million for the three months ended June 30, 2020, compared to \$2.0 million for the three months ended June 30, 2019. Technology and development costs of \$4.2 million for the six months ended June 30, 2020 were consistent with the comparable period in 2019.

### *Stock-Based Compensation*

In the third quarter of 2018, we determined that we no longer qualified as a Foreign Private Issuer (“FPI”) under the rules of the SEC. To minimize any undue effects on employees, our board of directors approved the availability of a cash surrender feature for certain options, including options issued under our Amended and Restated Incentive Stock Option Plan (“Option Plan”), until such time as we requalified as a FPI or we registered our common shares with the SEC. Accordingly, we accounted for the fair value of outstanding options at the end of June 30, 2019 as a liability, with changes in the liability recorded through net income as a stock-based compensation fair value adjustment. On October 9, 2019, we ceased allowing cash surrender of options and returned to equity accounting under the Option Plan without quarterly fair value adjustments at that date.

Stock-based compensation expense for the three months ended June 30, 2020 was \$0.4 million, compared to a \$1.7 million recovery for the same period of 2019. For the six months ended June 30, 2020, stock-based compensation was \$0.9 million compared to \$4.8 million for the same period of 2019. Stock-based compensation for the second quarter of 2019 included a fair value adjustment on cash settled options, as explained above.

#### *Reorganization Expenses*

In the first half of 2019, we incurred \$2.6 million of reorganization expenses, including severance payments and related legal and consulting costs associated with management and organizational changes. We do not consider current period severances related to our plant workforce to be reorganization expenses in nature.

#### *Government Subsidies*

As part of the Canadian federal government's COVID-19 Economic Response Plan, the Canadian government has established the Canadian Emergency Wage Subsidy ("CEWS") on April 11, 2020. Under the CEWS, the Company may be eligible for a subsidy of up to 75% of wages paid to Canadian employees to August 29, 2020, depending on the Company meeting certain revenue decline thresholds. During the quarter we received or were eligible to receive \$4.3 million under the CEWS.

The Canadian government recently introduced legislation to extend the availability of CEWS through December 19, 2020, with the amount of the subsidy varying depending on the scale of the Canadian revenue decline. Under the legislation, effective July 5, 2020, the CEWS would provide the Company with a taxable subsidy for wages paid to Canadian employees of up to 60%, with the amount of the subsidy varying depending on the scale of Canadian revenue decline and the maximum subsidy being reduced from 60% over the period, provided that, through August 29<sup>th</sup>, the Company will qualify for a CEWS subsidy that is at least as generous as under the current CEWS program. Under the proposals, a top-up subsidy of up to 85% of wages paid to Canadian employees would also be available if the Company has a 3-month average revenue drop in Canadian-sourced revenue of more than 50% and certain other requirements are satisfied. We will continue to assess our eligibility on an ongoing basis for as long as the program is available.

#### *Income Tax*

The provision for income taxes is comprised of federal, state, provincial and foreign taxes based on pre-tax income. Income tax expense for the three months ended June 30, 2020 was \$0.1 million, compared to \$1.7 million for the same period of 2019 and income tax recovery for the six months ended June 30, 2020 was \$1.2 million as compared to a \$1.7 million expense for the same period of 2019. As at June 30, 2020, we had C\$42.3 million of loss carry-forwards in Canada and none in the United States. These loss carry-forwards will begin to expire in 2032.

#### *Net Income (loss)*

Net income was \$0.3 million or \$0.00 net income per share in the second quarter of 2020, compared to net income of \$2.6 million or \$0.03 net income per share for the second quarter of 2019. The decrease in net income is attributable to the above noted reduction in gross profit and a \$0.5 million increase in foreign exchange loss, partially offset by a \$2.5 million reduction in operating expenses and \$4.3 million of government subsidies. The reduction in operating expenses reflects lower commissions on reduced sales activities, the combination of \$1.3 million of costs related to our sales and marketing plan and \$0.4 million related to the listing of our common shares on Nasdaq in 2019 that did not recur, other cost reductions both deliberate and as a consequence of the pandemic, offset by higher legal costs of \$0.9 million and an increase in stock based compensation of \$2.1 million.

Net loss for the six months ended June 30, 2020 was \$5.0 million or \$0.06 net loss per share compared to \$2.7 million or \$0.03 net loss per share in the six months ended June 30, 2019. Compared to the prior year period, the increase in net loss is attributable to the above noted reduction in gross profit, partially offset by a \$10.5 million reduction in operating costs, government subsidies of \$4.3 million, increased foreign exchange gains of \$2.3 million and \$1.2 million of income tax

recoveries. The reduction in operating expenses reflects lower commissions on reduced sales activities, the combination of \$1.3 million of costs related to our sales and marketing plan, \$1.1 million related to the listing of our common shares on Nasdaq and \$2.6 million of reorganization costs in 2019 that did not recur, other cost reductions both deliberate and as a consequence of the COVID-19 pandemic, and a \$3.9 million decrease in stock based compensation, offset by higher legal costs of \$3.0 million.

### **Liquidity and Capital Resources**

Cash and cash equivalents at June 30, 2020 totaled \$44.6 million, a decrease of \$2.6 million from \$47.2 million at December 31, 2019.

In July 2019, we entered into a C\$50.0 million senior secured revolving credit facility with the RBC. Draw-downs under the RBC Facility are available in both Canadian and U.S. dollars. As a result of our decline in revenues, discussed previously, and the potential impact of the COVID-19 pandemic on our outlook, we entered into a letter agreement with RBC during the second quarter. Under the Letter Agreement, the Covenants are waived for the period April 1 to September 30, 2020. During the Covenant Holiday Period the Company is able to borrow to a maximum of 75% of eligible accounts receivable and 25% of eligible inventory, less priority payables, subject to an aggregate limit of C\$50.0 million including amounts borrowed under the Leasing Facilities, described below. During the Covenant Holiday Period the Company is required to maintain a cash balance of \$10.0 million if no loans are drawn under the facility, have Adjusted EBITDA of not less than a loss of \$7.0 million and \$16.5 million for the twelve month periods ended June 30 and September 30, 2020, and make capital expenditures of no more than \$10.7 million during the Covenant Holiday Period. In the event that activity levels remain at current levels, we will likely seek an extension to the Covenant Holiday Period or permanently convert or replace the RBC Facility with an asset backed facility. As at June 30, 2020, the RBC Facility was undrawn and the available borrowing base was USD \$12.8 million.

During the three months ended June 30, 2020, we entered into a C\$5.0 million equipment leasing facility in Canada and a \$16.0 million equipment leasing facility in the United States, which are available for equipment expenditures and certain equipment expenditures already incurred. The Leasing Facilities, respectively, have seven and five-year terms and bear interest at 4.25% and 3.5%. The U.S. leasing facility is extendible for an additional year. During the second quarter of 2020 we borrowed C\$3.6 million (\$2.6 million) against the Canadian Leasing Facility and we anticipate drawing on the U.S. Leasing Facility in the second half of 2020 when equipment is received at the South Carolina Plant.

In light of the uncertainty caused by the near and potential mid-term impacts of COVID-19, we have evaluated multiple downside scenarios and have implemented cost control and expenditure management processes. Based on these analyses and the implementation of these spending control processes, we believe that existing cash and cash equivalents combined with increased liquidity from the aforementioned leasing facilities should, based on current activity levels, be sufficient to support ongoing working capital and capital expenditure requirements for at least the next twelve months.

A prolonged and complete cessation of or sustained significant decrease in North American construction activities or a sustained economic depression and its adverse impacts on customer demand could adversely affect our liquidity. To the extent that existing cash and cash equivalents and increased liquidity from the Leasing Facilities are not sufficient to fund future activities, we may seek to raise additional funds through equity or debt financings. If additional funds are raised through the incurrence of indebtedness, such indebtedness may have rights that are senior to holders of our equity securities or contain instruments that may be dilutive to our existing shareholders. Any additional equity or debt financing may be dilutive to our existing shareholders.

Since our inception, we have financed operations primarily through cash flows from operations, long-term debt, and the sale of equity securities. Over the past three years, we have funded our operations and capital expenditures through a combination of cashflow from operations and cash on hand. We had no amounts outstanding under the RBC Facility and C\$3.5 million outstanding under the Leasing Facilities as of June 30, 2020.

The following table summarizes our consolidated cash flows for the three months ended June 30, 2020 and 2019:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>(\$ in thousands)</b>		<b>(\$ in thousands)</b>	
Net cash flows provided by operating activities	2,377	7,480	1,617	14,881
Cash used in investing activities	(3,962)	(2,966)	(6,417)	(5,070)
Cash provided by (used in) financing activities	2,527	11	2,527	(5,545)
Effect of foreign exchange on cash and cash equivalents	224	152	(275)	1,058
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,166</b>	<b>4,677</b>	<b>(2,548)</b>	<b>5,324</b>
Cash and cash equivalents, beginning of period	43,460	54,059	47,174	53,412
<b>Cash and cash equivalents, end of period</b>	<b>44,626</b>	<b>58,736</b>	<b>44,626</b>	<b>58,736</b>

#### *Operating Activities*

Net cash flows provided by operating activities was \$2.4 million and \$1.6 million for the first three and six months of 2020, respectively, compared to net cash flows provided by operating activities of \$7.5 million and \$14.9 million in the corresponding periods of 2019. The decrease in cash flows from operations is largely due to a decrease in revenues and a reduction in trade accounts payables and other liabilities offset by the impact of government subsidies, increases in accounts receivable collections, and customer deposits and deferred revenue.

#### *Investing Activities*

For the three and six months ended June 30, 2020, we invested \$4.5 million and \$6.2 million, respectively, in property, plant and equipment compared to \$1.8 million and \$3.2 million in the respective prior year periods. The increase is primarily due to capital investments in manufacturing facilities including the South Carolina Plant. We invested \$0.9 million and \$1.9 million on capitalized software during the three and six months ended June 30, 2020, respectively, as compared to \$1.1 million and \$1.6 million in the three and six months ended June 30, 2019. The increase in the six month period ended June 30, 2020 is due to the current mix of projects undertaken by the Company and included a higher portion of efforts eligible for capitalization compared to the first half of 2019 in which projects were related to business process improvements that were not eligible for capitalization.

#### *Financing Activities*

For the three and six months ended June 30, 2020, C\$3.6 million (\$2.6 million) was received under the equipment leasing facility in Canada discussed above and \$0.1 million was repaid. We repaid the balance of \$5.6 million on long-term debt outstanding and related interest during the first quarter of 2019.

We currently expect to fund anticipated future investments through the combination of available cash and equipment leasing facilities. Apart from cash flow from operations, issuing equity and debt has been our primary source of capital to date. Additional debt or equity financing may be pursued in the future as we may deem appropriate. In the future, we may also use debt or pursue equity financing depending on the Company's share price, interest rates, and nature of the investment opportunity and economic climate.

#### **Credit Facilities**

On July 19, 2019, we entered into the RBC Facility, a C\$50.0 million senior secured revolving credit facility. The RBC Facility has a three-year term and can be extended for up to two additional years at our option. Interest is calculated at the Canadian or U.S. prime rate with no adjustment, or the bankers' acceptance rate plus 125 basis points. We are required to comply with certain financial covenants under the RBC Facility, including maintaining a minimum fixed charge coverage ratio of 1.15:1 and a maximum debt to Adjusted EBITDA ratio of 3.0:1 on a trailing four quarter basis. We are also required to comply with certain non-financial covenants, including, among other things, covenants restricting our ability to (i) dispose of our property, (ii) enter into certain transactions intended to effect or otherwise permit a material change in our corporate or capital structure, (iii) incur any debt, other than permitted debt, and (iv) permit certain encumbrances on our property. At June 30, 2020, we had no amounts drawn on our RBC Facility.

As a result of our decline in revenues, discussed previously, and the potential impact of the COVID-19 pandemic on our outlook, we entered into a Letter Agreement with RBC during the second quarter. Under the Letter Agreement, the Covenants are waived for the period April 1 to September 30, 2020. During the Covenant Holiday Period the Company is able to borrow to a maximum of 75% of eligible accounts receivable and 25% of eligible inventory, less priority

payables, subject to an aggregate limit of C\$50.0 million including amounts borrowed under the Leasing Facilities. During the Covenant Holiday Period the Company is required to maintain a cash balance of \$10.0 million if no loans are drawn under the facility, have Adjusted EBITDA of not less than a loss of \$7.0 and \$16.5 million for the twelve month periods ended June 30 and September 30, 2020, and make capital expenditures of no more than \$10.7 million during the Covenant Holiday Period. In the event that activity levels remain at current levels, we will likely seek an extension to the Covenant Holiday Period or permanently convert our credit facility to replace our facility with an asset backed facility. As at June 30, 2020, the RBC Facility was undrawn and the available borrowing base was \$12.8 million.

We are generally restricted from making dividends or distributions on our outstanding capital shares (other than any distribution by way of the payment of dividends by the issuance of equity securities). Except during the Letter Agreement period where such distributions are prohibited, we may also declare and pay dividends to our shareholders provided that such dividends do not exceed 50% of the Free Operating Cash Flow (as defined in the RBC Facility) for the most recently completed fiscal year and meet certain other conditions. We may also make a one-time Permitted Special Distributions (as defined in the RBC Facility) provided that we maintain a minimum balance of at least C\$20.0 million in our account and meet certain other conditions.

The RBC Facility is secured by substantially all of our real property located in Canada and the United States.

During the three months ended June 30, 2020, the Company entered into a C\$5.0 million equipment leasing facility in Canada and a \$16.0 million equipment leasing facility in the United States, which are available for equipment expenditures and certain equipment expenditures already incurred. The Leasing Facilities, respectively, have seven and five-year terms and bear interest at 4.25% and 3.5%. The U.S. leasing facility is extendible for an additional year. During the second quarter of 2020, the Company received C\$3.6 million (\$2.6 million) of cash consideration and commenced the lease term for the Canadian equipment expenditures.

### **Contractual Obligations**

There have been no material changes in our contractual obligations during the six months ended June 30, 2020, as compared to those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” in our Annual Report on Form 10-K, other than forthcoming additional commitments related to the South Carolina Plant, and our new DXC in Plano, Texas, as described in Note 11, “Commitments” to our interim condensed consolidated financial statements in this Quarterly Report.

### **Significant Accounting Policies and Estimates**

There have been no material changes in our significant accounting policies during the six months ended June 30, 2020, as compared to those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies and Estimates” in our Annual Report on Form 10-K. For information regarding significant accounting policies and estimates, please refer to Item 7 and Item 8 in our Annual Report on Form 10-K. As disclosed in Note 4, “Adoption of New and Revised Accounting Standards” to our condensed consolidated interim financial statements appearing in this Quarterly Report, we adopted ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses in Financial Instruments*”. Adoption of this amendment has impacted the way we determine expected credit loss on trade receivables. The methodology now applied has been explained in the referenced note.

### **Recent Accounting Pronouncements**

For information regarding recent accounting pronouncements, please refer to Note 4, “Adoption of New and Revised Accounting Standards” to our interim condensed consolidated financial statements and “–Significant Accounting Policies and Estimates” in this Quarterly Report.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

### ***Credit risk***

The overall change and uncertainty in the economy as a result of the COVID-19 pandemic has caused us to increase our expectation of credit losses during the first quarter of 2020, and additionally, we believe the COVID-19 pandemic has affected the ability of certain Distribution Partners to pay amounts owed or owing to DIRTT due to the impact of local shut-downs on businesses in certain markets. Accordingly, we have increased our provision for expected credit losses by \$0.6 million to \$0.7 million during the six months ended June 30, 2020 and we have implemented trade credit insurance for eligible accounts receivables that have arisen since April 1, 2020.

### ***Foreign exchange risk***

The strengthening of the U.S. dollar against the Canadian dollar in March, 2020, resulted in a reduction in Canadian dollar denominated revenues and a reduction in reported operating expenses, as approximately 50% of our expenditures are denominated in Canadian dollars. If the foreign exchange rate moves in the opposite direction it will have a negative impact on our reported results.

Other than the above, there have been no material changes to our market risk exposures since our disclosures in our Annual Report on Form 10-K. For information regarding our exposure to certain market risks, please refer to Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K.

## **Item 4. Controls and Procedures**

### ***Disclosure Controls and Procedures***

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 under the Exchange Act, our principal executive officer and principal financial officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2020. Based upon their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

### ***Changes in Internal Control Over Financial Reporting***

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

During the period covered by this Quarterly Report on Form 10-Q, no legal proceedings were commenced, and there were no material developments in already-pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company is a party or of which any of its property is subject.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors and other cautionary statements described under the heading “Risk Factors” included in our Annual Report on Form 10-K, which could materially affect our businesses, financial condition, or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations.

#### *Our business, financial condition, results of operations and growth could be harmed by the effects of the COVID-19 pandemic.*

The COVID-19 pandemic has negatively affected, and may continue to negatively affect, our operations, including our revenue, expenses, collectability of accounts receivables and other amounts owed, capital expenditures, liquidity, prospects, and overall financial condition. We are subject to risks related to the public health crises such as the global pandemic associated with the coronavirus (COVID-19). In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Further, the President of the United States declared the COVID-19 pandemic a national emergency. In Canada and the United States, numerous state, local, and provincial jurisdictions, including Alberta, Canada, where our headquarters and a principal manufacturing facility are located, and Phoenix, Arizona and Savannah, Georgia, where our other principal manufacturing facilities are located, have imposed, and others in the future may impose, “shelter-in-place” orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Such orders or restrictions, and the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, construction delays and stoppages and cancellation of events, among other effects, thereby negatively affecting our employees, customers, suppliers, Distribution Partners, and offices, among others.

We have responded to the COVID-19 pandemic by, among other things, implementing enhanced safety protocols to protect our employees; commencing an evaluation of potential downside operational risk scenarios and developing action plans; eliminating or deferring uncommitted non-critical or discretionary spending; and commencing the process to secure additional incremental access to liquidity. Due to the shelter-in-place orders in Canada and the United States, we have implemented work-from-home policies for many non-factory employees as well as plant access restrictions and social-distancing measures within our facilities, which may affect productivity and disrupt our business operations, including our ability to maintain operations, financial reporting systems, internal control over financial reporting and disclosure controls and procedures. Shelter-in-place policies in multiple jurisdictions combined with the resulting adverse economic conditions are expected to adversely affect construction activity in the near term, with potential significant adverse effects extending beyond 2020. For example, several projects currently underway are experiencing delay, impacted by both the implementation of social distancing and other safety-related measures. We also believe that the COVID-19 pandemic may have significant influence on future workplace environments, with increasing focus on workplace safety. This could lead to a reduction in open office environments and increased demand for social spacing and separation within the workplace, which may benefit our business. On the other hand, if alternative work arrangements, such as work from home, become more prevalent, demand for our products may decrease. Continued shelter-in-place orders, quarantines, executive orders or related measures to combat the spread of COVID-19, as well as perceived need by individuals to continue such practices, could harm our near- and long-term results of operations and revenue, business and financial condition.

In addition, the COVID-19 outbreak has adversely affected and may continue to adversely affect our plans to grow our business. For example, in light of the uncertainty caused by the COVID-19 pandemic and logistical challenges of hiring and onboarding, we are evaluating our priorities and are phasing the planned increases to our commercial organizational headcount needed to strengthen our sales and marketing efforts to implement our strategic plan. We have also further reduced our manufacturing labor force and have reduced shifts at our manufacturing facilities.

Adverse economic and market conditions could also have a negative effect on others on whom our business depends, such as our suppliers, Distribution Partners, customers, and third-party contractors, which may cause them to fail to meet their obligations to us. Additionally, we are working closely with our Distribution Partners to understand expected activity levels and are actively monitoring our opportunity pipeline and our daily order entry relative to our plant capacity and labor force requirements. However, we believe the COVID-19 pandemic has affected the ability of certain Distribution Partners to pay amounts owed or owing to us due to the impact of local shut-downs on businesses in certain markets. We increased our expected credit losses for the six months ended June 30, 2020 by \$0.6 million to reflect increased collection risk related to certain Distribution Partners. We also implemented methods to further decrease our credit risk exposure, including implementing trade credit insurance for eligible accounts receivables that have arisen since April 1, 2020.

While the potential economic impact brought by and the duration of COVID-19 may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common shares. Further, a recession or prolonged economic contraction could also harm the business and results of operations of our customers and Distribution Partners, resulting in potential business closures and layoffs of employees. The timing and pace of economic recovery, the resumption of construction activity and related demand, or its effect on achievement of our long-term strategic plan goals is not possible to predict.

The COVID-19 pandemic continues to change rapidly. The extent of the impact of the COVID-19 pandemic or a similar health epidemic on our business and our financial and operational performance is highly uncertain and will depend on future developments, including the duration, spread, severity, and any recurrence of the COVID-19 pandemic; the duration and scope of related federal, state, provincial and local government orders and restrictions; the extent of the impact of the COVID-19 pandemic on the construction market and on our Distribution Partners, customers and suppliers; and our access to capital, all of which are highly uncertain and cannot be predicted at this time.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

Not Applicable.

**Item 6. Exhibits**

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>Restated Articles of Amalgamation of DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
3.2	<u>Amended and Restated Bylaw No. 1 of DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on May 22, 2020).</u>
10.1*	<u>First Amending Agreement between Royal Bank of Canada and DIRTT Environmental Solutions, Ltd. dated March 4, 2020</u>
10.2*#	<u>Letter Agreement between Royal Bank of Canada and DIRTT Environmental Solutions, Ltd. dated June 19, 2020</u>
10.3*+	<u>Employment Agreement, dated April 6, 2020, by and between DIRTT Environmental Solutions, Inc. and Lindsay Gusso</u>
10.4*#	<u>Second Amendment to Lease made as of the 6th day of July, 2020, by and between SP ROCK HILL LEGACY EAST #1, LLC, an Indiana limited liability company, and DIRTT ENVIRONMENTAL SOLUTIONS, INC., a Colorado corporation.</u>
10.5+	<u>DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on May 22, 2020).</u>
10.6+	<u>Form of Option Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
10.7+	<u>Form of Time-Based Restricted Share Unit Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
10.8+	<u>Form of Performance-Based Restricted Share Unit Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
31.1*	<u>Certification of the Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of the Principal Executive Officer required by 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of the Principal Financial Officer required by 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

<u>Exhibit No.</u>	<u>Description</u>
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith

\*\* Furnished herewith

+ Compensatory plan or agreement.

# Specific terms in this exhibit (indicated therein by asterisks) have been omitted because such terms are both not material and would likely cause competitive harm to the Company if publicly disclosed.

**SIGNATURES**

Pursuant to the requirements 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.

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

By: /s/ Geoffrey D. Krause  
Geoffrey D. Krause  
Chief Financial Officer (Duly Authorized Officer and  
Principal Financial Officer)

Date: July 29, 2020

**FIRST AMENDING AGREEMENT**

**Between**

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.,**  
as Borrower

**- and -**

**DIRTT ENVIRONMENTAL SOLUTIONS INC.,**  
as Guarantor

**- and -**

**ROYAL BANK OF CANADA,**  
as Lender

**DATED AS OF MARCH 4, 2020**

**THIS FIRST AMENDING AGREEMENT** is made as of the 4<sup>th</sup> day of March, 2020.

**BETWEEN:**

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

(the “**Borrower**”)

- and -

**DIRTT ENVIRONMENTAL SOLUTIONS INC.**

(the “**Guarantor**”)

- and -

**ROYAL BANK OF CANADA**

(the “**Lender**”)

**WHEREAS**, the Borrower, the Guarantor and the Lender entered into a credit agreement dated as of July 19, 2019 (the “**Original Credit Agreement**”), pursuant to which the Lender agreed to make certain credit facilities available to the Borrower on and subject to the terms and conditions set out therein;

**AND WHEREAS**, the Borrower, the Guarantor and the Lender have agreed to enter into this First Amending Agreement to amend the Original Credit Agreement as provided for in this First Amending Agreement (the Original Credit Agreement as so amended, the “**Credit Agreement**”);

**NOW THEREFORE**, in consideration of the premises and the mutual covenants herein contained, the Borrower, the Guarantor and the Lender hereby agree as follows:

1.0 **DEFINITIONS**

Capitalized terms used in this First Amending Agreement will, unless otherwise defined herein, have the meanings attributed to such terms in the Credit Agreement.

2.0 **AMENDMENT DATE**

The amendments to the Original Credit Agreement contained herein shall be effective as of the date (the “**Effective Date**”) that the conditions precedent herein have been satisfied or waived by the Lenders.

### 3.0 **AMENDMENTS TO THE ORIGINAL CREDIT AGREEMENT**

As of the Effective Date, Section 14.07 of the Original Credit Agreement is deleted and replaced with the following:

#### **14.07 Assignment or Participation by Lender**

(1) The rights, benefits and obligations of the Lender under or in respect of this Agreement (the “**Rights**”) may, in whole or in part (subject to, prior to the occurrence of an Event of Default, a minimum amount of \$5,000,000), be assigned (“**Assign**”, “**Assigned**” or an “**Assignment**”) by the Lender to, or participated in (“**Participated**” or a “**Participation**”) by one or more Persons (each an “**Assignee**” or a “**Participant**”, as the case may be), without the consent of the Borrower: (i) to an Assignee or Participant that is an Affiliate of the Lender or that is an Approved Fund at any time, provided that, in the case of an Assignment, each such Assignee shall be capable of satisfying any and all obligations of the “Lender” under this Agreement, or (ii) to any Assignee or Participant after the occurrence and during the continuance of an Event of Default. Prior to the occurrence and continuance of an Event of Default, with the prior written consent of the Borrower, which consent will not be unreasonably withheld or delayed, the Lender may Assign or Participate its Rights in respect of this Agreement to any Person, provided that, in the case of an Assignment, each Assignee shall be capable of satisfying any and all obligations of the “Lender” under this Agreement. An Assignment or Participation hereunder that requires the consent of the Borrower will become effective upon receipt by the Lender of the written consent of the Borrower. An Assignment or Participation that does not require the consent of or notice to the Borrower will become effective upon execution of the applicable documentation by the Lender, as applicable, and the Participant or Assignee, as the case may be. The Borrower will execute all such further documentation as the Lender may request with respect to any Assignment or Participation and any prospective Assignee will execute such documentation as the Borrower may reasonably request for the purpose of ensuring that the Assignee is bound by the terms of this Agreement. The Borrower shall not be required to pay any expenses (including the reasonable fees, charges and disbursements of legal counsel) incurred: (i) by it, or, notwithstanding Section 14.01 of this Agreement, the Lender, any Assignee or any Participant, in connection with any amendment required to this Agreement or any other Loan Document in connection with an Assignment or Participation prior to the occurrence and continuance of an Event of Default, or (ii) by the Lender, any Assignee or any Participant, in connection with any Assignment or Participation prior to the occurrence and continuance of an Event of Default. For the purpose of this Section 14.07 (1) “Approved Fund” means any investment fund owned, administered managed or controlled by the Lender; provided that if any of the Rights are assigned to an Approved Fund, Overdraft Loans shall continue to be made available to the Borrower through its accounts with the Lender and the Lender will continue to issue Letters of Credit in accordance with this Agreement, without the requirement of the Borrower to pay any fronting fees in respect of any such Letter of Credit.

### 4.0 **ACKNOWLEDGEMENT AND REPRESENTATIONS OF THE BORROWER AND GUARANTOR**

The Guarantor acknowledges and agrees that its guarantee of the payment of the Guaranteed Obligations set out in Article 13 of the Credit Agreement continues in full force and effect. Each of the Borrower and the Guarantor acknowledges and confirms that the Security previously granted by each of them to the Lender under or in connection with the Original Credit Agreement, continues in full force and effect, and that the mortgages, pledges, charges, assignments, security interests and covenants therein contained or thereby constituted, continue to secure all of the Obligations.

5.0 **CONDITIONS PRECEDENT**

This First Amending Agreement shall become effective at such time as the Lender has received a duly executed copy of this First Amending Agreement.

6.0 **CONTINUING EFFECT**

Each of the parties hereto acknowledges and agrees that the Credit Agreement and all other Loan Documents entered into in connection therewith, continue in full force and effect and are hereby ratified, confirmed and approved.

7.0 **FURTHER ASSURANCE**

Subject to section 14.07 of the Credit Agreement, the Borrower will from time to time forthwith at the Lenders' request and at the Borrower's own cost and expense make, execute and deliver, or cause to be done, made, executed and delivered, all such further documents, financing statements, assignments, acts, matters and things which may be reasonably required by the Lenders and as are consistent with the intention of the parties as evidenced herein, with respect to all matters arising under the Credit Agreement and the Security. Notwithstanding Section 14.01 of the Credit Agreement, the Borrower shall not be required to pay Lender's expenses (including the fees, charges and disbursements of Lender's Counsel) incurred in connection with this First Amending Agreement.

8.0 **GOVERNING LAW**

This First Amending Agreement will be governed by and construed in accordance with the laws in force in the Province of Alberta from time to time.

9.0 **COUNTERPARTS**

This First Amending Agreement may be executed and delivered in any number of counterparts (including by facsimile or pdf transmission), each of which when executed and delivered will be deemed to be an original, but all of which when taken together constitutes one and the same instrument.

*[Signature pages follow]*

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date first above written.

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.,**  
as Borrower

By: /s/ Geoff Krause  
Name: Geoff Krause  
Title: Chief Financial Officer

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page – First Amending Agreement (DIRTT)]

**ROYAL BANK OF CANADA,**  
as Lender

By: /s/ Kevin Desjardins  
Name: Kevin Desjardins  
Title: Director – National Client Group Finance

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page – First Amending Agreement (DIRTT)]

**DIRTT ENVIRONMENTAL SOLUTIONS INC.,**  
as Guarantor

By: /s/ Geoff Krause  
Name: Geoff Krause  
Title: Chief Financial Officer

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page – First Amending Agreement (DIRTT)]

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE SUCH TERMS ARE BOTH NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO THE COMPANY IF PUBLICLY DISCLOSED. THESE REDACTED TERMS HAVE BEEN MARKED IN THIS EXHIBIT WITH THREE ASTERISKS [\*\*\*].

Execution Version

June 19, 2020

DIRTT Environmental Solutions Ltd.  
7303 30th Street SE  
Calgary, Alberta  
T2C 1N6

Attention: Chief Financial Officer

**Re: Credit agreement dated as of July 19, 2019 among DIRTT Environmental Solutions Ltd. (the “Borrower”), as borrower, DIRTT Environmental Solutions, Inc. (the “Guarantor”), as guarantor, and Royal Bank of Canada, as lender, (the “Lender”)**

Dear Sirs/Mesdames:

This letter agreement (this “**Letter Agreement**”) is written in connection with the credit agreement dated as of July 19, 2019 as amended by a first amending agreement dated March 4, 2020 (as so amended, the “**Original Credit Agreement**”), pursuant to which the Lender agreed to make certain credit facilities available to the Borrower on and subject to the terms and conditions set out therein. The Borrower, the Guarantor and the Lender have agreed to enter into this Letter Agreement to amend the Original Credit Agreement as provided for in this Letter Agreement (the Original Credit Agreement as amended by this Letter Agreement, the “**Credit Agreement**”). Capitalized terms used and not otherwise defined in this Letter Agreement have the meanings given to them in the Credit Agreement.

1.0 **AMENDMENT DATE**

The amendments to the Original Credit Agreement contained herein shall be effective as of the date (the “**Effective Date**”) that the conditions precedent herein have been satisfied or waived by the Lenders.

2.0 **AMENDMENTS TO THE ORIGINAL CREDIT AGREEMENT**

As of the Effective Date, the Original Credit Agreement is hereby amended as follows:

- (a) Article 1 of the Original Credit Agreement is amended by adding the following definitions to Section 1.1 in alphabetical order:
  - “**Account Debtor**” means in respect of any Account Receivable, the debtor obligated to make payment thereof.
  - “**Accounts Receivable**” means, whether now existing or hereafter arising, any accounts, accounts receivable, other receivables, choses in action and contract

rights related to or evidencing the obligations or the receivables arising under any sales of Inventory or services by the Business provided by the Restricted Parties to any Person in the ordinary course of business.

“**Borrowing Base**” means the amount determined by the Lender as the most recently calculated borrowing base against which the Lender will provide advances to the Borrower under the Credit Facility during the Covenant Holiday Period (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender), calculated without duplication as follows:

- i) 75% of the aggregate amount of the Canadian Dollar Equivalent Amount of the Eligible Accounts Receivables of Restricted Parties less the amount of Priority Payables; plus
- ii) 25% of the aggregate amount of the Canadian Dollar Equivalent Amount of the Eligible Inventory of the Restricted Parties.

“**Borrowing Base Certificate**” means the “Borrowing Base Certificate” attached as Exhibit 1 to this Letter Agreement.

“**Canadian Revolving Lease**” means the master lease agreement between the Borrower and the Lender dated May 4, 2020, as the same may be amended, modified, varied, restated or replaced from time to time.

“**Canadian Revolving Lease Facility**” means the revolving lease facility in an amount up to the Canadian Revolving Lease Facility Limit established by the Lender in favour of the Borrower pursuant to the Canadian Revolving Lease.

“**Canadian Revolving Lease Facility Limit**” means an amount equal to Cdn. \$5,000,000.

“**Cost Value**” means the invoice cost paid by the applicable Restricted Party to the manufacturer or supplier of Eligible Inventory, net of Taxes, less any deposits received by a Restricted Party from any purchaser of such Eligible Inventory (for greater certainty, not including deposits received with respect to work in process inventory) and less any rebates from the manufacturer or supplier.

“**Covenant Holiday Period**” means the period commencing on April 1, 2020 to and including September 30, 2020.

“**Credit Facility Allocation**” means at any time, an amount equal to Cdn. \$50,000,000 less the outstanding principal amount advanced to the Borrower under the Canadian Revolving Lease Facility and the Canadian Dollar Equivalent Amount of outstanding principal amount advanced to DIRT Colorado under the U.S. Non-Revolving Lease Facility.

“**Credit Facility Limit**” means:

- (i) during the Covenant Holiday Period, the lesser of (i) the Credit Facility Allocation; and (ii) the Borrowing Base; and

(ii) after the Covenant Holiday Period, the Credit Facility Allocation.

**“Eligible Accounts Receivable”** means, at any time, the invoice value of Canadian Dollar and U.S. Dollar Accounts Receivable (net of all goods and services Taxes, harmonized sales Taxes and other sales Taxes and net of any credit balance, returns, trade discounts, unapplied cash, unbilled amount or retention or finance charges) owing to the Restricted Parties (or any of them) arising under any sales of Inventory from the operation of the business of the Restricted Parties made by the Restricted Parties to any Person in the ordinary course of business, which invoice value shall be periodically reported to the Lender in the form of Schedule “B” to be delivered (i) at the time of each Drawdown during the Covenant Holiday Period, if at the time of such Drawdown there is no principal amount outstanding under any Prime Rate Loans, Base Rate Loans, CDOR Loans, and there are no outstanding Bankers’ Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender), and (ii) within fifteen days after the end of each calendar month during the Covenant Holiday Period, if during such month any Prime Rate Loans, Base Rate Loans, CDOR Loans, Bankers’ Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender) are outstanding; provided that no Account Receivable shall be deemed an Eligible Account Receivable unless each of the following statements is accurate and complete (and by including such Account Receivable in any calculation of the Borrowing Base, the Borrower shall be deemed to represent and warrant to the Lender the accuracy and completeness of such statements):

- (a) it is genuine and in all respects is what it purports to be;
- (a) with respect to any Account Receivable arising from the sale of Inventory: (A) the subject Inventory have been completed, sold and shipped, on a true sale basis on an open account, or subject to contract, and not on consignment, on approval, or a “sale or return” basis, or on a “bill and hold” or “pre-sale” basis or subject to any other repurchase or return agreement, and (B) no material part of the subject Inventory has been returned, rejected, lost or damaged;
- (b) it is not evidenced by chattel paper or a promissory note or an instrument of any kind which has not been provided to and endorsed in favour of the Lender;
- (c) it is in the amount represented to the Lender and is owed to the applicable Restricted Party by the Account Debtor represented to the Lender;
- (d) it is owned by the applicable Restricted Party, the applicable Restricted Party has the right to subject it to, and it is subject to, a First-Ranking Security Interest in favour of the Lender (subject to the giving of a notice to the Account Debtor to pay the same as directed by the Lender);
- (e) it is evidenced by an invoice or statement rendered to the Account Debtor thereunder in the ordinary course of business arising out of the sale of

Inventory, is due and payable within a maximum of 60 days after the stated invoice date thereof and does not remain unpaid for more than 90 days past the stated due date thereof;

- (f) it is not subject to any actual or deemed trust or prior Encumbrance whatsoever;
- (g) it is not a volume rebate or warranty receivable;
- (h) there is no obligation to hold any portion of the Account Receivable in trust or as agent for any other Person;
- (i) it is a valid, legally enforceable and unconditional obligation of the Account Debtor thereunder, and is (A) net of any dispute, set off, counterclaim, deduction, holdback, credit, contra, chargebacks or adjustment by such Account Debtor, (B) not subject to rescission, cancellation or any other claim by such Account Debtor denying liability thereunder whether by reason of prepayment, previous credit or otherwise, and (C) not subject to any agreement between such Account Debtor and the applicable Restricted Party that in any way could reasonably be expected to adversely affect the payment of such Account Receivable;
- (j) it does not fail in any material respect to comply with the requirements of Applicable Laws;
- (k) all permits or approvals required to be obtained have been obtained, effected or given in connection with the payment of such Account Receivable by the Account Debtor or in connection with the enforcement and collection of such Account Receivable by the applicable Restricted Party and the Lender have been duly obtained, effected or given and are all in full force and effect;
- (l) the Account Debtor thereunder is not an Affiliate or Subsidiary of any Restricted Party, or a director, officer, employee or partner of any Restricted Party, any Affiliate of any Restricted Party or any Subsidiary of any Restricted Party;
- (m) except for Account Receivables payable by a Governmental Authority to a Restricted Party as a result of the sale by such Restricted Party of its finished goods inventory in the normal course of business, it is not an Account Receivable with respect to which the Account Debtor is Her Majesty the Queen in Right of Canada or Her Majesty the Queen in Right of any Province or any department, agency or instrumentality thereof or any Governmental Authority, including with out limitation any refunds, credits or reimbursement for any Taxes;
- (n) it is not an Account Receivable that the Lender, acting reasonably, has, in its sole discretion, designated as ineligible or subject to undue credit risk;
- (o) the Account Debtor of such Account Receivable is not insolvent or the subject of any bankruptcy or insolvency proceedings, does not have a trustee or receiver appointed for all or a substantial part of its Property, has not made

an assignment for the benefit of creditors, admitted its inability to pay its debts as they mature or suspended its business, and the Lender is otherwise satisfied with the credit standing of such Account Debtor;

- (p) it is not an Account Receivable with respect to which the Account Debtor's obligation to pay is conditional;
- (q) it is not an Account Receivable which is an intercorporate account;
- (r) it is not a holdback Account Receivable (being any amount subject to builder's liens or related legislation);
- (s) it is not an Account Receivable in dispute;
- (t) it is not an amount billed for services not as yet completed;
- (u) the Account Debtor of such Account Receivable is organized and existing under the laws of the United States of America or a state thereof or the federal laws of Canada, a province or territory thereof; and
- (v) it is not an Account Receivable (A) with respect to which any representation or warranty contained in this Agreement or any other Loan Document is untrue or (B) which violates any of the covenants of the Restricted Parties (or any of them) contained in this Agreement or any other Loan Document,

but in each case, for greater certainty, shall not include any amounts included in the calculation of "**Eligible Inventory**".

"**Eligible Inventory**" means at any time, the Cost Value of Inventory, which Cost Value shall be periodically reported to the Lender in the form of Schedule "B" (i) at the time of each Drawdown during the Covenant Holiday Period, if at the time of such Drawdown there is no principal amount outstanding under any Prime Rate Loans, Base Rate Loans, CDOR Loans, and there are no outstanding Bankers' Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender), and (ii) within fifteen days after the end of each calendar month during the Covenant Holiday Period, if during such month any Prime Rate Loans, Base Rate Loans, CDOR Loans, Bankers' Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender) are outstanding; provided that no Inventory shall be deemed "Eligible Inventory" unless each of the following statements is accurate and complete (and by including such Inventory in any computation of the Borrowing Base, the Borrower shall be deemed to represent and warrant to the Lender the accuracy and completeness of such statements):

- (a) such Inventory falls under the definition of "Inventory" hereunder;
- (b) such Inventory is in good condition, merchantable, meets all standards imposed by any Governmental Authority having regulatory authority over it or its use and/or sale and is not obsolete and is either currently usable or currently saleable in the normal course of business of the Restricted Parties;

- (c) such Inventory is subject to a First-Ranking Security Interest held by the Lender pursuant to the Security and is not subject to any other Encumbrance (including any Purchase Money Security Interest);
- (d) such Inventory is (i) in possession of a Restricted Party, (ii) is (A) located on real property owned by a Restricted Party, or (B) is located on leased real property and a landlord consent is in full force and effect with respect to such leased real property, and (iii) is within Canada or the United States;
- (e) the Borrower has not received any notice from a party claiming an Encumbrance, Priority Payable in respect of such Inventory;
- (f) such Inventory is not work in progress;
- (g) such Inventory is not subject to any prior claims or consignments;
- (h) such Inventory is not fully financed under the terms of any other agreement;
- (i) such Inventory is not Inventory in respect of which a payable is due; and
- (j) such Inventory is not Inventory that the Lender, acting reasonably, has designated from time to time, in its sole discretion, as being ineligible,

but, for greater certainty, Eligible Inventory shall not include any amounts included in the calculation of “**Eligible Accounts Receivable**”.

“**First-Ranking Security Interest**” in respect of any Property means an Encumbrance in such Property which is registered where necessary or where the Lender, acting reasonably, considers such registration desirable to record and perfect the charges contained therein and which ranks in priority to all other Encumbrances except for any Permitted Encumbrances which have priority in accordance with Applicable Laws.

“**Inventory**” means raw materials, supplies, goods, parts and accessories used in the manufacturing of prefabricated interior modular walls, ceilings, floors decorative and functional millwork and power and network infrastructure, and which are owned by a Restricted Party.

“**Letter Agreement**” means the Letter Agreement dated as of June 19, 2020, made among the Borrower, the Guarantor and the Lender.

“**Priority Payable**” means, at any time, any amount due and payable at such time by an obligor which is secured by an encumbrance or statutory right or claim in favour of any Governmental Authority which ranks or is capable of ranking prior to or *pari passu* with the Encumbrances created by the Security in respect of any Account Receivable or Inventory including, without limitation, amounts due and payable for wages, vacation pay that is due and payable, and for certainty, excluding vacation accruals), termination and severance pay, employee

deductions (including income, withholding, social security and other employment taxes), sales tax, excise tax, tax payable pursuant to Part IX of the *Excise Tax Act* (Canada) (net of GST input credits), workers compensation premiums, municipal taxes, government royalties, Pension Plan obligations and overdue rents or Taxes, other claims in arrears and secured by statutory Encumbrances or deemed trusts, including, without limitation, warehousing liens and storage liens, and claims in respect of arrears of rent or other amounts payable under a lease or rental agreement for real Property at which the subject Inventory of the obligor is located.

“**US Non-Revolving Lease**” means the master lease agreement no. 20200687 dated April 30, 2020 entered into by the Borrower and First American Commercial Bancorp, Inc., as the same may be amended, modified, varied, restated or replaced from time to time

“**US Non-Revolving Lease Facility**” means the non-revolving lease facility established by First American Commercial Bancorp, Inc. in favour of DIRTT Colorado in an amount of up to the US Non-Revolving Lease Facility Limit pursuant to the US Non-Revolving Lease.

“**US Non-Revolving Lease Facility Limit**” means an amount equal to U.S. \$16,000,000.

- (b) The definition of “**Credit Facility**” in Section 1.1 of the Original Credit Agreement is deleted and replaced with the following:

““**Credit Facility**” has the meaning set out in Section 2.01 (1).”

- (c) Section 2.01 of the Original Credit Agreement is deleted and replaced with the following:

#### 2.01 **Borrower Facilities**

Subject to the terms and conditions of this Agreement, the Lender establishes in favour of the Borrower a revolving term facility (the “**Credit Facility**”) in an amount up to the Credit Facility Limit or the Equivalent Amount in United States Dollars, which facility will be available only during the Revolving Period.

- (d) Section 2.03 of the Original Credit Agreement is deleted and replaced with the following:

#### 2.03 **Purpose of Credit Facility**

Loans under the Credit Facility will only be used for working capital and general corporate purposes in the ordinary course of business of the Borrower and the other Restricted Parties; provided however during the Covenant Holiday Period, proceeds from Loans under the Credit Facility shall not be used for: (i) the payment of any Capital Expenditures or (ii) lease or other payments to be made under the Canadian Revolving Lease Facility or the US Non-Revolving Lease Facility.

- (e) Article 2 of the Original Credit Agreement is amended by inserting the following immediately after Section 2.14:

**2.15 Availability of Facilities**

The amount advanced to the Borrower by the Lender under the Credit Facility shall not at any time exceed the Credit Facility Limit.

- (f) Section 9.02 of the Original Credit Agreement is deleted and replaced with the following:

**9.02 Financial Covenants**

So long as this Agreement is in force and except as otherwise permitted by the prior written consent of the Lender, the Borrower will ensure that at the end of each fiscal quarter:

- (1) Funded Debt to Adjusted EBITDA Ratio. Commencing with the fiscal quarter beginning on October 1, 2020, the Funded Debt to Adjusted EBITDA Ratio is less than 3.00:1.00; provided however that for the first two fiscal quarters immediately following a Material Acquisition, the Borrower will ensure that the Funded Debt to Adjusted EBITDA Ratio is less than 3.50:1.00 at the end of each such fiscal quarter.
- (2) Fixed Charge Coverage Ratio. Commencing with the fiscal quarter beginning on October 1, 2020, the Fixed Charge Coverage Ratio is not less than 1.15:1.00.

**9.02A Covenant Holiday Financial Covenants**

- (1) Cash Liquidity. At all times during the Covenant Holiday Period when no Loans (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender) are outstanding under the Credit Facility, the Borrower shall at all times ensure that it has unrestricted cash on hand (excluding any cash collateral provided by a Restricted Party to the Lender with respect to Letters of Credit) in an amount at least equal to U.S.\$10,000,000.
- (2) TMM Adjusted EBITDA Thresholds. As of the last day of each fiscal quarter during the Covenant Holiday Period when Loans are outstanding under the Credit Facility (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender), the Borrower shall ensure that: (i) Adjusted EBITDA for the most recently completed twelve month period ending on June 30, 2020 is not less than negative U.S.\$7,000,000, and (ii) Adjusted EBITDA for the most recently completed twelve month period ending on September 30, 2020 is not less than negative US\$16,500,000.

- (3) Capital Expenditures. The Borrower shall ensure that the aggregate Capital Expenditures of the Restricted Parties does not exceed U.S. \$10,700,000 for the two fiscal quarters ending on September 30, 2020.
- (4) Borrowing Base Certificate. The Borrower shall execute and deliver a fully completed Borrowing Base Certificate to the Lender in the form of Schedule "B" (i) at the time of each Drawdown during the Covenant Holiday Period, if at the time of such Drawdown there is no principal amount outstanding under any Prime Rate Loans, Base Rate Loans, CDOR Loans, and there are no outstanding Bankers' Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender), and (ii) within fifteen days after the end of each calendar month during the Covenant Holiday period, if during such month any Prime Rate Loans, Base Rate Loans, CDOR Loans, Bankers' Acceptances or Letters of Credit (other than Letters of Credit issued under the Credit Facility that are fully secured with cash collateral provided by a Restricted Party to the Lender) are outstanding.
- (g) Article 9 of the Original Credit Agreement is amended by adding the following immediately after Section 9.03 (6):
- (7) 2021 Internal Management Forecast. Concurrently with the delivery of the financial statements referred to in Section 9.03(1) for the fiscal quarter ending September 30, 2020: (i) a pro forma of revenues, expenses, cash flows and balance sheet for the fiscal quarter ending December 31, 2020, and (ii) an internal management forecast for the 2021 fiscal year in a form satisfactory to the Lender, acting reasonably.
- (8) 2020 Annual Report and Compliance Certificate. As soon as available and in any event within 45 days after the end of the 2020 fiscal year: (i) the interim unaudited consolidated balance sheet, statement of income and retained earnings, statement of changes in financial position and source and application of funds, or such other similar statements of the Borrower as required by Applicable Accounting Standards, which will be prepared in accordance with Applicable Accounting Standards, and (ii) a duly completed and executed interim Compliance Certificate for the fiscal year ending 2020 (which for greater certainty will be in addition to the Compliance Certificate to be delivered to the Lender with the financial statements referred to in Section 9.03 (2)).
- (h) Section 9.04 (7) of the Original Credit Agreement is deleted and replaced with the following:
- No Distributions. Make any Distributions except Permitted Distributions or Special Distributions; provided however that during the Covenant Holiday Period, the Borrower shall not and shall not permit any other Restricted Party from making any Distributions (including Permitted Distributions or Special Distributions).

- (i) Section 9.04 of the Original Credit Agreement is hereby amended by adding the following immediately after Section 9.04 (17):  
(18) Anti-cash Hoarding. The Borrower shall not, and shall not permit any Subsidiary to use the proceeds of any amount outstanding under the Credit Facility to accumulate or maintain cash or cash equivalents in one or more depository or investment accounts maintained by the Borrower or any Restricted Party in an amount, in the aggregate between all such parties, greater than U.S \$5,000,000 (or the equivalent amount in any other currency), but excluding therefrom cash or cash equivalents accumulated or maintained therein for a specified business purpose approved by the Lender (other than simply accumulating a cash reserve), and, for certainty, the Lender may refuse to make any requested Loan or advance which the Lender, acting reasonably, determines would result in a contravention of this Section 9.08 (18).
- (j) Section 11.01 (c) of the Original Credit Agreement is deleted and replaced with the following:  
(c) if the Borrower breaches any of its obligations or covenants in Section 2.15, Section 9.02, Section 9.02A (1) or Section 9.02A (2).
- (k) Schedule "B" attached hereto as Exhibit 1 is hereby appended to the Credit Agreement.

### 3.0 **ACKNOWLEDGEMENT AND REPRESENTATIONS OF THE BORROWER AND GUARANTOR**

The Guarantor acknowledges and agrees that its guarantee of the payment of the Guaranteed Obligations set out in Article 13 of the Credit Agreement continues in full force and effect. Each of the Borrower and the Guarantor acknowledges and confirms that the Security previously granted by each of them to the Lender under or in connection with the Original Credit Agreement, continues in full force and effect, and that the mortgages, pledges, charges, assignments, security interests and covenants therein contained or thereby constituted, continue to secure all of the Obligations.

### 4.0 **CONDITIONS PRECEDENT**

This Letter Agreement shall become effective at such time as the Lender shall have received (each in form and substance satisfactory to the Lender) the following:

- (a) a duly executed copy of this Letter Agreement;
- (b) a certificate of a senior officer of the Borrower confirming that:
  - (i) the representations and warranties set forth in the Original Credit Agreement, as amended hereby, are true and correct;
  - (ii) the Borrower has performed or observed or caused to be performed or observed the covenants set forth in the Original Credit Agreement, as amended hereby, to be performed or observed by it;

- (iii) there has not occurred any Default or Event of Default which is unremedied as of the date thereof, after giving effect to this Letter Agreement; and
- (iv) there has not occurred any Material Adverse Change which is unremedied as of the date thereof, after giving effect to this Letter Agreement.

and attaching thereto, without limitation:

- (v) the articles and by-laws of the Borrower;
- (vi) resolutions authorizing and approving the authorization, execution, delivery and performance by the Borrower of the Letter Agreement; and
- (vii) an incumbency certificate certifying the names and the true signatures of each of its officers authorized to sign the Letter Agreement for the Borrower;

(c) a certificate of a senior officer of the Guarantor confirming that:

- (i) the representations and warranties set forth in the Original Credit Agreement, as amended hereby, are true and correct; and
- (ii) each of the Guarantor has performed or observed or caused to be performed or observed the covenants set forth in the Original Credit Agreement, as amended hereby, to be performed or observed by it;

and attaching thereto, without limitation:

- (iii) the articles and by-laws of the Guarantor;
- (iv) resolutions authorizing and approving the authorization, execution, delivery and performance by the Guarantor of the Letter Agreement; and
- (v) an incumbency certificate certifying the names and the true signatures of each of its officers authorized to sign the Letter Agreement for the Guarantor;

(d) a certificate of good standing (or similar certificate) issued by the appropriate Official Body in the jurisdiction of formation of the Borrower and the Guarantor;

(e) letters of opinion from Borrower's Counsel and counsel to the Guarantor addressed to the Lender relating to, *inter alia*, the existence of each of the Borrower and Guarantor and the authorization, execution and delivery by each of the Borrower and the Guarantor of the Letter Agreement and the enforceability of the Letter Agreement and the Credit Agreement;

- (f) the Borrower will pay to the Lender a work fee in the amount of Cdn. \$[\*\*\*] and all other fees, costs and expenses incurred by the Lender in connection with the Letter Agreement;
- (g) the Lender shall have completed and found to be satisfactory in its sole determination its usual and customary “Know Your Customer” due diligence with respect to the Restricted Parties; and
- (h) such other certifications and documentation as the Lender and Lender’s Counsel may reasonably request.

**5.0 CONTINUING EFFECT**

Each of the parties hereto acknowledges and agrees that the Credit Agreement and all other Loan Documents entered into in connection therewith, continue in full force and effect and are hereby ratified, confirmed and approved.

**6.0 FURTHER ASSURANCE**

Subject to Section 14.07 of the Credit Agreement, the Borrower will from time to time forthwith at the Lender’s request and at the Borrower’s own cost and expense make, execute and deliver, or cause to be done, made, executed and delivered, all such further documents, financing statements, assignments, acts, matters and things which may be reasonably required by the Lender and as are consistent with the intention of the parties as evidenced herein, with respect to all matters arising under the Credit Agreement and the Security.

**7.0 GOVERNING LAW**

This Letter Agreement will be governed by and construed in accordance with the laws in force in the Province of Alberta from time to time.

**8.0 COUNTERPARTS**

This Letter Agreement may be executed and delivered in any number of counterparts (including by facsimile or pdf transmission), each of which when executed and delivered will be deemed to be an original, but all of which when taken together constitutes one and the same instrument.

*[Signature pages follow]*

Yours very truly,

**ROYAL BANK OF CANADA,**  
as Lender

By: /s/ Kevin Desjardins

Name: Kevin Desjardins

Title: Director – National Client Group Finance

By: \_\_\_\_\_

Name:

Title:

[Signature Page – Second Amending Agreement (DIRTT)]

Accepted and agreed:

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.,**  
as Borrower

By: /s/ Geoff Krause  
Name: Geoff Krause  
Title: Chief Financial Officer

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page – Second Amending Agreement (DIRTT)]

**DIRTT ENVIRONMENTAL SOLUTIONS, INC.,**  
as Guarantor

By: /s/ Geoff Krause  
Name: Geoff Krause  
Title: Chief Financial Officer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signature Page – Second Amending Agreement (DIRTT)]

## EXHIBIT 1

**SCHEDULE "B"** attached to and forming part of the Credit Agreement made as of July 19, 2019 among DIRTT Environmental Solutions Ltd., as Borrower, DIRTT Environmental Solutions, Inc., as Guarantor and Royal Bank of Canada, as Lender

### **BORROWING BASE CERTIFICATE**

TO: Royal Bank of Canada  
335-8th Avenue SW,  
23rd Floor, Calgary, AB  
T2P 1C9

Attention: Vice President, National Client Group

Ladies and Gentlemen:

1. Reference is made to the credit agreement made as of July 19, 2019 among DIRTT Environmental Solutions Ltd., (the "**Borrower**"), DIRTT Environmental Solutions, Inc., as guarantor and Royal Bank of Canada, as lender (the "**Lender**"), as amended, modified, supplemented, restated or replaced from time to time (the "**Credit Agreement**"). All terms and expressions used herein but not otherwise defined, shall have the same meanings herein as are ascribed thereto in the Credit Agreement.
2. There has not occurred any unremedied Default or Event of Default.
3. The Borrower represents and warrants that this Borrowing Base Certificate is a true, correct and complete statement of, and that the information contained herein is true, correct and complete in all material respects regarding the Eligible Accounts Receivable and Eligible Inventory and that the amounts reflected herein are in compliance with the provisions of the Credit Agreement. The Borrower further represents and warrants that all representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects. The Borrower further represents and warrants that of the date hereof, all outstanding amounts owing by Restricted Parties with respect to any and all of their leased real property have been paid in full.
4. With respect to the Credit Facility:
  - (a) A listing of all Eligible Accounts Receivable as at the end of [month/year] is attached hereto.
  - (b) A listing of all Priority Payables as at the end of [month/year] is attached hereto.
  - (c) A listing of all aged Accounts Receivable as at the end of [month/year] is attached hereto.

(d) The following is a calculation of the Borrowing Base as at the date of this certificate:

**Based on Eligible Accounts Receivable and Eligible Inventory as at the date hereof**

	<u>Cdn. Dollar Equivalent</u>	<u>Margin</u>	<u>Credit</u>
<b><i>Accounts Receivable</i></b>			
Eligible Accounts Receivable	<>	75%	<>
Less Priority Payables			<>
<b><i>Eligible Inventory</i></b>			
Eligible Inventory (as per paragraph (ii) in the definition of Borrowing Base)	<>	25%	<>
Total Borrowing Base			<>
<b><i>Availability</i></b>			<>

5. The Borrower hereby confirms that the principal amount of all advances, in aggregate, under the Credit Facility does not exceed, and has not at any time exceeded, the Credit Facility Limit.

DATED this    day of            , 20    .

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

Per: \_\_\_\_\_

Name:

Title:

Per: \_\_\_\_\_

Name:

Title:

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** is made as of the 6<sup>th</sup> day of April, 2020 (the “**Effective Date**”)

**BETWEEN:**

**DIRTT ENVIRONMENTAL SOLUTIONS, INC.**  
(the “**Company**”)

- and -

**LINDSAY GUSSO**  
(the “**Executive**”)

**RECITALS:**

- A. The Company wishes to employ the Executive pursuant to this Employment Agreement.
- B. The Executive wishes to accept employment with the Company under this Agreement.
- C. The parties agree that their employment relationship will be governed by the terms and conditions of this Agreement, commencing the Effective Date.

**NOW THEREFORE** in consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Company and the Executive agree as follows:

**1. Definitions**

In this Agreement,

- (a) “**Accrued Entitlements**” has the meaning set out in Section 9(a)(iv).
- (b) “**Affiliate**” means any person or entity Controlling, Controlled by, or Under Common Control with the Company. The term “**Control**,” including the correlative terms “**Controlling**,” “**Controlled By**,” and “**Under Common Control with**” means possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or any Company or other ownership interest, by contract or otherwise) of a person or entity. For the purposes of the preceding sentence, Control shall be deemed to exist when a person or entity possesses, directly or indirectly, through one or more intermediaries (i) in the case of a company, more than 50% of the outstanding voting securities thereof; (ii) in the case of a limited liability company, partnership or joint venture, the right to more than 50% of the distributions therefrom (including liquidating distributions); or (iii) in the case of any other person or entity, more than 50% of the economic or beneficial interest therein. For the avoidance of doubt, with respect to the Company, the term Affiliate includes the Parent.
- (c) “**Agreement**” means this Employment Agreement, as may be amended or supplemented from time to time as provided for herein.
- (d) “**Board**” means the Board of Directors of the Parent.

- (e) “**Bonus**” has the meaning set out in Section 5(c).
- (f) “**Business**” means the business of designing, manufacturing and installing prefabricated interiors in commercial and residential buildings, and includes, for greater certainty and without limitation: (i) the following products which can be integrated with interior wall solutions: (A) pre-fabricated modular network data cable distribution, (B) pre-fabricated and electrical power cable distribution, (C) pre-fabricated modular case goods, and (D) pre-fabricated low-profile flooring; (ii) the development and sale or license to third parties of 3D computer aided design software for the design, construction and maintenance of buildings and the design, construction, modification and furnishing of building interiors; and (iii) such other business as the Company or any of its Affiliates becomes engaged in during the Term that is related in a material way to the duties and responsibilities of the Executive.
- (g) “**Confidential Information**” means all confidential or proprietary information, intellectual property (including trade secrets) and confidential facts relating to the business and affairs of the Company and its Affiliates, whether oral or in writing, or presented visually or electronically, and includes business and technical information, marketing and business plans, strategies, research and development materials and matters, databases, specifications, formulations, tooling, prototypes, sketches, models, drawings, specifications, procurement requirements, engineering information, samples, computer software (source and object codes), forecasts, identity of or details about actual or potential customers or projects, techniques, inventions, discoveries, know-how, and trade secrets. Notwithstanding the foregoing, Confidential Information does not include any information:
  - (i) that becomes publicly available through no fault or breach of this Agreement by the Executive; or
  - (ii) that the Executive possesses prior to the date on which the Executive first became employed or engaged by the Company or any of its Affiliates and that the Executive obtained from a source other than the Company or any of its Affiliates.
- (h) “**Distribution Partner**” means a Person engaged in the sale of products or services produced or distributed by the Company or any of its Affiliates.
- (i) “**Good Reason**” means:
  - (i) a material diminution in the Executive’s Salary or authority, duties and responsibilities with the Company, the Parent and any of the Parent’s other direct or indirect subsidiaries; provided, however, that if the Executive is serving as an officer or member of the board of directors (or similar governing body) of the Parent, the Company or any of their Affiliates, in no event shall the removal of the Executive as an officer or board member, regardless of the reason for such removal, constitute Good Reason;

- (ii) a material breach by the Company of any of its obligations under this Agreement; or
- (iii) the relocation of the geographic location of the Executive's principal place of employment by more than fifty (50) miles from the location of the Executive's principal place of employment as of the Effective Date; *provided, however*, that travel in the course of Executive's employment (including to other locations of the Company and Parent in the United States and Canada) shall not be considered to be a Good Reason event under this Section 1(i)(iii).

Notwithstanding the foregoing provisions of this Section 1(i) or any other provision of this Agreement to the contrary, any assertion by the Executive of a termination for Good Reason shall not be effective unless all of the following conditions are satisfied: (A) the condition described in Section 1(i)(i), (ii) or (iii) giving rise to the Executive's termination of employment must have arisen without the Executive's consent; (B) the Executive must provide written notice to the Board of the existence of such condition(s) within thirty (30) days after the initial occurrence of such condition(s); (C) the condition(s) specified in such notice must remain uncorrected for thirty (30) days following the Board's receipt of such written notice; and (D) the date of the Executive's termination of employment must occur within sixty (60) days after the initial occurrence of the condition(s) specified in such notice.

- (j) **"Just Cause"** means any gross negligence, willful misconduct or breach of fiduciary duty by the Executive in relation to the performance of the Executive's duties under this Agreement, any material neglect by the Executive of her duties under this Agreement, or any of the following:
  - (i) fraud, misappropriation, embezzlement or malfeasance on the part of the Executive with respect to the property, interests or funds of the Company or its Affiliates;
  - (ii) any misfeasance or nonfeasance in office which is willfully or grossly negligent on the part of the Executive;
  - (iii) the breach by the Executive of any policy of the Company or its Affiliates or the breach by the Executive of any policy or law relating to non-discrimination, non-retaliation or anti-harassment (including sexual harassment);
  - (iv) the breach by the Executive of her obligations under any noncompetition, non-solicitation, confidentiality or company property covenants under this Agreement; or
  - (v) the Executive's conviction for a felony or indictable offense or any other crime involving fraud or moral turpitude, or a plea of no contest with regard to any of the same.

- (k) “**Materials**” has the meaning set out in Section 14(a).
- (l) “**Parent**” means DIRTT Environmental Solutions Ltd.
- (m) “**Person**” means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation, with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted.
- (n) “**Restricted Period**” means twelve (12) months from the Termination Date, plus one (1) month per completed year of service from the Effective Date, to a maximum of eighteen (18) months.
- (o) “**Restricted Territory**” means: Canada, the United States of America and any other countries as the Company or any of its Affiliates develop business interests during the Term, and which the Company advises the Executive in writing within twenty (20) days following the Termination Date are part of the Restricted Territory.
- (p) “**Salary**” has the meaning set out in Section 5(a).
- (q) “**Severance Period**” means twelve (12) months from the Termination Date, plus one month per completed year of service from the Effective Date, to a maximum of eighteen (18) months.
- (r) “**Term**” has the meaning set out in Section 4.
- (s) “**Termination Date**” has the meaning set out in Section 8(b).

## 2. **Employment of the Executive and Position**

Commencing on the Effective Date, the Executive shall hold the position of Chief Human Resources Officer and shall report directly to the President & Chief Executive Officer. As Chief Human Resources Officer of the Company, the Executive shall perform those duties set forth in any applicable position description adopted and amended by the Company from time to time, and such other duties as the Executive shall reasonably be directed to perform by the Company from time to time in respect of the business and operations of the Company, the Parent and their Affiliates.

## 3. **Performance of Duties**

- (a) During the Term, the Executive shall devote her full working time and attention to the performance of her duties on behalf of the Company and its Affiliates, shall faithfully, honestly and diligently serve the Company and its Affiliates and shall use her best efforts and skill to promote the best interests of the Company and its Affiliates at all times. Notwithstanding the foregoing, the Executive may devote a reasonable amount of time during non-business hours to charitable organizations

and boards, provided that such participation does not adversely impact the performance of her duties hereunder or breach any of the other terms of this Agreement or any other obligation that the Executive owes the Company or any of its Affiliates.

- (b) In performing her duties under this Agreement, the Executive shall comply with any written policies, procedures or rules established by the Company or Parent from time to time, as may be amended by the Company or Parent at their discretion.
- (c) The Executive's principal place of employment as of the Effective Date shall be the Company's offices in Plano, Texas; provided, however, the Executive acknowledges and agrees that business travel will be required in the course of performing her duties.

#### 4. **Employment Period**

The Executive shall be employed by the Company hereunder commencing on the Effective Date, and the Executive's employment hereunder will terminate upon the Termination Date (as defined below). The period that the Executive is employed hereunder is referred to as the "**Term**".

#### 5. **Remuneration**

- (a) **Base Salary**. For the Executive's services under this Agreement, during the Term, the Company shall pay the Executive an annualized base salary of \$250,000, less required deductions and applicable withholdings (the "**Salary**").
- (b) **Benefits**. During the Term, the Executive shall be eligible to participate in the benefit plans made available by the Company to its similarly situated employees from time to time in accordance with, and subject to, the terms and conditions of such plans as may be amended by the Company at its discretion from time to time. The Company shall not, by reason of this Section 5(b), be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such plan, so long as such changes are similarly applicable to any similarly situated Company employees generally.
- (c) **Bonus**. During the Term, the Executive will be eligible to participate in the Parent's Variable Pay Plan ("**VPP**"), as amended from time to time and in accordance with and subject to the terms and conditions thereof and as set out herein. The Executive's annual target bonus opportunity shall be equal to 50% of Salary as in effect at the beginning of the applicable calendar year (the "**Target Bonus**"). Notwithstanding the foregoing, the Target Bonus for the 2020 calendar year may be less than 50% of Salary; provided, however, that the VPP payment for the 2020 calendar year shall not be less than an amount equal to 25% of Salary and shall not be prorated to reflect the Effective Date. Subject to the foregoing sentence, the amount of the Executive's payment under the VPP, if any, in respect of a calendar year (the "**Bonus**") shall be dependent upon, calculated in reference to, and paid in accordance with, the achievement of applicable performance objectives as set out and evaluated by the Board under the VPP, in its sole discretion.

- (d) Equity-Based Incentive Compensation. The Executive will be eligible to receive grants of equity-based incentives under the Company's stock option plan, performance share unit plan or other equity-based incentive arrangements, each as amended from time to time and in accordance with and subject to the terms thereof. The Executive's target with respect to the equity-based incentives is 75% of her Salary. The amount and type of the equity-based incentives for any year will be determined by the Board and may change from year to year.

**6. Expenses**

- (a) General. The Company shall pay or reimburse the Executive for all reasonable travel and other out-of-pocket expenses incurred or paid by the Executive in the performance of her duties hereunder.
- (b) Relocation Expenses. The Company shall pay or reimburse the Executive for all reasonable, standard and customary relocation costs incurred between the Effective Date and December 31, 2021, up to a maximum of \$20,000 (the "Relocation Payment").

If any portion of the Relocation Payment provided to or for the benefit of the Executive results in taxable income to the Executive, the Company shall provide the Executive with an amount equal to any income and other taxes payable by the Executive upon the provision of such Relocation Payment (and an additional amount equal to any taxes imposed on such tax gross-up amount), such that the Executive shall not incur any tax costs with respect to such Relocation Payment.

- (c) Tax Preparation Expenses. The Company shall reimburse the Executive for reasonable and necessary legal and/or accounting fees incurred in the preparation of the Executive's 2020 and 2021 income tax returns, up to a maximum of \$5,000 per year.

The payment or reimbursement of expenses in this Section 6 shall be made upon the presentation of expense statements or other supporting documentation as the Company may reasonably require, in accordance with any expense reimburse policies implemented by the Company from time to time. Any such reimbursement of expenses shall be made by the Company upon or as soon as practicable following receipt of such documentation (but in any event not later than the close of the Executive's taxable year following the taxable year in which the expense is incurred by the Executive). In no event shall any reimbursement be made to the Executive for any expenses incurred after the date of the Executive's termination of employment with the Company.

**7. Vacation**

As of the Effective Date, the Executive shall be eligible for vacation with pay of up to four (4) weeks per complete calendar year (pro-rated for partial calendar years) that the Executive is employed hereunder. Vacation eligibility will be increased by 1 (one) week per year for every five (5) completed years of the Executive's service from the Effective Date, to a maximum of up to six (6) weeks per complete calendar year. Vacation shall accrue and be taken in accordance with Company vacation policies as in effect from time to time. The Executive may carry forward a maximum of ten (10) vacation days from one year to the next. Any vacation carried over must be used in the first quarter of the following calendar year.

8. **Termination**

- (a) **Notice.** The Executive's employment hereunder:
- (i) may be terminated by the Company at any time for Just Cause, without prior notice and without further obligation to the Executive, other than as set out in Section 10 of this Agreement;
  - (ii) will terminate automatically upon the death of the Executive;
  - (iii) may be terminated by the Company at any time without Just Cause, without prior notice and without further obligation to the Executive, other than as set out in Section 9 of this Agreement;
  - (iv) may be terminated by the Executive for Good Reason; or
  - (v) may be terminated by resignation of the Executive without Good Reason upon providing one (1) month's prior written notice to the Company; *provided, however*, that if the Executive has provided notice to the Company of the Executive's termination of employment without Good Reason, the Company may determine, in its sole discretion, that such termination shall be effective on any date prior to the effective date of termination provided in such notice (and, if such earlier date is so required, then it shall not change the basis for the Executive's termination of employment nor be construed or interpreted as a termination of employment pursuant to Section 8(a)(iii)).
- (b) **Effective Date of Termination.** The effective date on which the Executive's employment hereunder is terminated (the "**Termination Date**") shall be:
- (i) in the case of termination under Section 8(a)(i) or Section 8(a)(iii), the day specified by the Company in writing;
  - (ii) in the case of termination under Section 8(a)(ii), the date of death; or
  - (iii) in the case of termination under Section 8(a)(iv), the last day of the applicable notice period referred to in Section 1(i); or
  - (iv) in the case of termination under Section 8(a)(v), the last day of the applicable notice period referred to therein (unless an earlier date is designated by the Company pursuant to Section 8(a)(v)).
- (c) **Return of Property, etc.** On the Termination Date, the Executive shall (i) be deemed to have automatically resigned from all offices and directorships held by the Executive with the Company and its Affiliates and agrees to execute, immediately upon request, any such written resignations or other documentation as may be

requested by the Company with respect thereto, (ii) deliver to the Company (and not retain any copies of) all Materials in the Executive's possession or under the Executive's control, and (iii) deliver to the Company any keys, access cards, business cards, credit and charge cards, computer, cell phone or other property or device issued or provided to him by or on behalf of the Company or any Affiliate.

**9. Rights on Termination (without Just Cause or for Good Reason)**

Upon termination of the Executive's employment by the Company without Just Cause or by the Executive for Good Reason, the following provisions shall apply:

- (a) the Executive shall receive from the Company:
  - (i) payment of the Executive's accrued but unpaid Salary up to the Termination Date;
  - (ii) reimbursement of all expenses incurred in accordance with Section 6 up to the Termination Date;
  - (iii) provision of all benefits up to the Termination Date in accordance with Section 5(b);
  - (iv) payment of the Executive's accrued but unused vacation entitlement existing as of the Termination Date (subsections (i) through (iv) are hereinafter referred to as the "**Accrued Entitlements**");
  - (v) subject to the final sentence of Section 5(c), and Sections 9(b), and (d), payment of the Bonus earned (if any) for the year in which the termination occurs, pro-rata from the start of that Bonus year to the Termination Date, based on actual performance during the entire Bonus year, as determined by the Company following the Bonus year and payable to the Executive in accordance with Section 5(c) following completion of the Bonus year (the "**Accrued Bonus Payment**");
  - (vi) subject to Sections 9(b), (c), and (d), the continued payment of Salary during the Severance Period (such payment, the "**Severance Payment**");
  - (vii) any equity-based incentive compensation awards held by the Executive shall be dealt with in accordance with the applicable plan terms then in effect; and
  - (viii) subject to Section 9(b), and (d), for the portion, if any, of the Severance Period that the Executive elects to continue coverage for the Executive and the Executive's spouse and eligible dependents, if any, under the Company's group health plans pursuant to Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), the Company shall promptly reimburse the Executive on a monthly basis for the difference between the amount the Executive pays to effect and continue such

coverage and the employee contribution amount that similarly situated employees of the Company pay for the same or similar coverage under such group health plans (the “**COBRA Benefit**”). Each payment of the COBRA Benefit shall be paid to Executive on the Company’s first regularly scheduled pay date in the calendar month immediately following the calendar month in which the Executive submits to the Company documentation of the applicable premium payment having been paid by the Executive, which documentation shall be submitted by the Executive to the Company within thirty (30) days following the date on which the applicable premium payment is paid. the Executive shall be eligible to receive such reimbursement payments until the earliest of: (x) the last day of the Severance Period; (y) the date the Executive is no longer eligible to receive COBRA continuation coverage; and (z) the date on which the Executive becomes eligible to receive coverage under a group health plan sponsored by another employer (and any such eligibility shall be promptly reported to the Company by the Executive); provided, however, that the election of COBRA continuation coverage and the payment of any premiums due with respect to such COBRA continuation coverage shall remain the Executive’s sole responsibility, and the Company shall not assume any obligation for payment of any such premiums relating to such COBRA continuation coverage. Notwithstanding the foregoing, if the provision of the benefits described in this paragraph cannot be provided in the manner described above without penalty, tax or other adverse impact on the Company or any of its Affiliates, then the Company and the Executive shall negotiate in good faith to determine an alternative manner in which the Company may provide substantially equivalent benefits to the Executive without such adverse impact on the Company or such other Affiliate.

- (b) The Accrued Bonus Payment (if any), the Severance Payment and the COBRA Benefit are subject to and conditioned upon the Executive:
  - (i) executing, on or before the time provided by the Company to do so (which shall not be less than Ten (10) days), and not revoking within any time provided by the Company to do so, a release of all claims in a form acceptable to the Company (the “**Release**”), which Release shall release the Company and each of its Affiliates, and the foregoing entities’ respective shareholders, members, partners, officers, managers, directors, fiduciaries, employees, representatives, agents and benefit plans (and fiduciaries of such plans) from any and all claims, including any and all causes of action arising out of the Executive’s employment and engagement with the Company and any of its Affiliates or the termination of such employment and engagement, but excluding all claims to the Severance Payment or the COBRA Benefit the Executive may have under Sections 9(a)(vi) or 9(a)(viii), and (ii) abiding by the terms of each of Sections 11, 12, 13, 14 and 15.
- (c) The Severance Payment will be divided into a number of substantially equal installments equal to the number of months during the applicable Severance Period. On the Company’s first regularly scheduled pay date that is on or after the date that is sixty (60) days after the Termination Date, the Company shall pay to the

Executive, without interest, a number of such installments equal to the number of such installments that would have been paid during the period beginning on the Termination Date and ending on the Company's first regularly scheduled pay date that is on or after the date that is sixty (60) days after the Termination Date had the installments been paid on a monthly basis commencing on the Company's first regularly scheduled pay date coincident with or next following the Termination Date, and each of the remaining installments shall be paid on a monthly basis thereafter; provided, however, that (i) to the extent, if any, that the aggregate amount of the installments of the Severance Payment that would otherwise be paid pursuant to the preceding provisions of this Section 9(c) after March 15 of the calendar year following the calendar year in which the Termination Date occurs (the "**Applicable March 15**") exceeds the maximum exemption amount under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A), then such excess shall be paid to the Executive in a lump sum on the Applicable March 15 (or the first Business Day preceding the Applicable March 15 if the Applicable March 15 is not a Business Day) and the installments of the Severance Payment payable after the Applicable March 15 shall be reduced by such excess (beginning with the installment first payable after the Applicable March 15 and continuing with the next succeeding installment until the aggregate reduction equals such excess), and (ii) all remaining installments of the Severance Payment, if any, that would otherwise be paid pursuant to the preceding provisions of this Section 9(c) after December 31 of the calendar year following the calendar year in which the Termination Date occurs shall be paid with the installment of the Severance Payment, if any, due in December of the calendar year following the calendar year in which the Termination Date occurs.

- (d) If the Release is not executed and returned to the Company in the time provided by the Company to do so (which shall not be less than Ten (10) days), and any revocation period specified in the Release has not fully expired without revocation of the Release by the Executive, then the Executive shall not be entitled to any portion of the Accrued Bonus Payment (if any), the Severance Payment or the COBRA Benefit.

#### **10. Rights on Termination for Just Cause or Resignation without Good Reason**

Upon resignation by the Executive other than for Good Reason or termination by the Company for Just Cause, the Executive shall be entitled only to the Accrued Entitlements.

#### **11. Non-Competition**

The Executive shall not, during the Term and for the Restricted Period (regardless of the reason for termination of the Executive's employment or the party causing it), within the Restricted Territory, be engaged or participate, either directly or indirectly in any manner including as an officer, director, shareholder, owner, partner, member, joint venturer, employee, independent contractor, consultant, advisor or sales representative, in any business or enterprise that competes with or is intending to compete with the Business of the Company or any of its Affiliates. Notwithstanding the foregoing, the Executive shall be permitted to own (as a passive investment) not more than two percent (2%) of the issued shares of a Company (including unexercised options

or similar rights to acquire shares at a later date), the shares of which are listed on a recognized stock exchange or traded in the over the counter market, which carries on a business which is the same as or substantially similar to or which competes with or reasonably would compete with the Business.

## **12. Non-Solicitation and No Hire**

The Executive shall not, during the Term and for the Restricted Period (regardless of the reason for termination of the Executive's employment or the party causing it):

- (a) solicit, entice or attempt to solicit or entice, either directly or indirectly, any customer or prospective customer of the Company or any of its Affiliates about whom or which the Executive obtains Confidential Information or for whom or which the Executive has responsibility as at the Termination Date, or at any time during the twelve (12) months prior to the Termination Date, to become a customer of any business or enterprise that competes with the Company or any of its Affiliates for any Business, or to limit or cease doing any Business with the Company or its Affiliate; or
- (b) solicit or entice, or attempt to solicit or entice, or hire, either directly or indirectly, any employee or Distribution Partner of the Company or an Affiliate as at the Termination Date, or during the twelve (12) months prior to the Termination Date, to become employed or engaged by any business or enterprise that competes with the Company or any of its Affiliate for any Business, or solicit or entice such employee or Distribution Partner to limit or cease their employment or engagement with the Company or any of its Affiliate.

## **13. Confidentiality**

In the course of the Executive's employment hereunder, the Company will provide the Executive with (and the Executive will have access to) Confidential Information. The Executive shall not, either during the Term or at any time thereafter, directly or indirectly, use or disclose to any Person any Confidential Information, provided, however, that nothing in this section shall preclude the Executive from disclosing or using Confidential Information if:

- (a) the Confidential Information is disclosed in the course of performing the Executive's duties on behalf of the Company or any of its Affiliates;
- (b) the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement;
- (c) the Confidential Information was in the possession of or known to the Executive, without any obligation to keep it confidential, before it was disclosed to the Executive by the Company or any of its Affiliates; or
- (d) disclosure of the Confidential Information is required to be made by any law, regulation, governmental body or authority, or by court order.

Notwithstanding the foregoing, nothing in this Agreement shall prohibit or restrict the Executive from lawfully (i) initiating communications directly with, cooperating with, providing information to, causing information to be provided to, or otherwise assisting in an investigation by, any governmental authority regarding a possible violation of any law; (ii) responding to any inquiry or legal process directed to the Executive from any such governmental authority; (iii) testifying, participating or otherwise assisting in any action or proceeding by any such governmental authority relating to a possible violation of law, or (iv) making any other disclosures that are protected under the whistleblower provisions of any applicable law. Additionally, pursuant to the federal Defend Trade Secrets Act of 2016, an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (1) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made to the individual's attorney in relation to a lawsuit for retaliation against the individual for reporting a suspected violation of law or (C) is made in a complaint or other document filed in a lawsuit or proceeding, if such filing is made under seal. Nothing in this Agreement requires the Executive to obtain prior authorization before engaging in any conduct described in this paragraph, or to notify the Company that the Executive has engaged in any such conduct.

#### **14. Proprietary and Moral Rights**

- (a) **Proprietary Rights.** The Executive recognizes the Company's and its Affiliates' proprietary rights in the tangible and intangible property of the Company and its Affiliates and acknowledges that the Executive has not obtained or acquired and shall not obtain or acquire any right, title or interest, in any of the property of the Company or its Affiliates or any of their respective predecessors, successors, affiliates or related companies. Accordingly, any writing, communications, manuals, documents, instruments, contracts, agreements, files, literature, data, information, formulas, products, devices, apparatuses, trademarks, trade names, trade styles, service marks, logos, and any other intellectual property created, developed, made or conceived by the Executive either alone or in conjunction with others: (i) in connection with the Executive's duties or responsibilities under this Agreement; and/or (ii) resulting from the use of any information, equipment, materials or premises owned, leased, or contracted for by the Company or any of its Affiliates (collectively, the "**Materials**") shall be the sole and exclusive property of the Company and its Affiliates (as applicable).
- (b) **Waiver of Moral Rights.** The Executive irrevocably waives, to the greatest extent permitted by law, all of the Executive's moral rights whatsoever in the Materials, including any right to the integrity of any Materials, any right to be associated with any Materials, and any right to restrict or prevent the modification or use, of any Materials in any way whatsoever. To the extent applicable, the Executive irrevocably transfers to the Company all rights to restrict any violations of moral rights in any of the Materials, including any distortion, mutilation or other modification.

- (c) Assignment of Rights. To the extent that the Executive may own or otherwise acquire any right, title or interest in and to any Materials (including any intellectual property rights in the Materials) during the term of this Agreement and thereafter, the Executive agrees to assign, and hereby irrevocably assigns, all such right, title and interest automatically to the Company, including any renewals, extensions or reversions relating thereto and any right to bring an action or to collect compensation for past infringements, automatically upon the creation, development, making, or conception of same.
- (d) Registrations. The Company will have the exclusive right to obtain copyright registrations, letters patent, industrial design registrations, trade-mark registrations or any other protection in respect of the Materials and the intellectual property rights relating to the Materials anywhere in the world. At the expense and request of the Company, the Executive shall, both during and after the Executive's employment with the Company, execute all documents and do all other acts necessary in order to enable the Company to protect its rights in any of the Materials and the intellectual property rights relating to the Materials.

## 15. Fiduciary and other Obligations

The Executive acknowledges that the obligations contained in Sections 11, 12, 13 and 14 of this Agreement are in addition to any statutory, fiduciary and other common law obligations that the Executive also owes to the Company and its Affiliates, during and after the Term. For greater certainty, nothing contained in this Agreement is a waiver, release or reduction of any statutory, fiduciary or common law obligations owed by the Executive to the Company and its Affiliates.

## 16. Notices

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by hand delivery or express overnight courier service or internationally-recognized second-day courier service or email as hereinafter provided. Notice of change of address shall also be governed by this section. Notices shall be deemed to have been duly received (a) when delivered in person if given by hand delivery, (b) when sent by email transmission on a business day to the email address set forth below, if applicable; *provided, however*, that if a notice is sent by email transmission after normal business hours of the recipient or on a non-business day, then it shall be deemed to have been received on the next business day after it is sent, (c) on the first business day after such notice is sent by express overnight courier service, or (d) on the second business day following deposit with an internationally-recognized second-day courier service with proof of receipt maintained. Notices and other communications shall be addressed as follows:

- (a) if to the Executive:

Lindsay Gusso

- (b) if to the Company

DIRTT Environmental Solutions  
7303 30<sup>th</sup> Street SE  
Calgary, AB T2C 1N6

Attn: General Counsel  
[legal@dirtt.net](mailto:legal@dirtt.net)

#### **17. Headings; Construction**

The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof. Any and all Schedules referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. Unless the context requires otherwise, all references to laws, regulations, contracts, documents, agreements and instruments refer to such laws, regulations, contracts, documents, agreements and instruments as they may be amended from time to time, and references to particular provisions of laws or regulations include a reference to the corresponding provisions of any succeeding law or regulation. The words “herein”, “hereof”, “hereunder” and other compounds of the word “here” shall refer to the entire Agreement, including all Schedules attached hereto, and not to any particular provision hereof. Unless the context requires otherwise, the word “or” is not exclusive. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely. All references to “including” shall be construed as meaning “including without limitation.” Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties hereto and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

#### **18. Applicable Deductions and Withholdings**

The payments and benefits set forth in this Agreement are subject to all applicable statutory deductions and withholdings including: (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling and (b) any deductions consented to in writing by the Executive.

#### **19. Reasonableness and Enforceability of Restrictions**

- (a) The Company shall provide the Executive access to Confidential Information for use only during the Term, and the Executive acknowledges and agrees that the Company and its Affiliates will be entrusting the Executive, in the Executive’s unique and special capacity, with developing the goodwill of the Company and its Affiliates, and as an express incentive for the Company to enter into this Agreement and employ the Executive hereunder, the Executive has voluntarily agreed to the covenants set forth in Section 11 and Section 12.
- (b) The Executive acknowledges and agrees that all of the restrictions contained in Sections 11, 12, 13, 14 and 15 of this Agreement (including the definition of Business, the definition of Restricted Territory (which fairly reflects the geographic scope of the Business activities carried on by the Company and its Affiliates and the length of the Restricted Period) are reasonable in all respects and necessary to protect the Confidential Information and other legitimate interests of the Company and its Affiliates, and will not unduly restrict the Executive’s ability to secure

alternative employment following the termination of the Executive's employment for any reason. If any covenant or provision (or part thereof) of this Agreement is determined by a court of competent jurisdiction to be void or unenforceable in whole or in part, for any reason, it shall be interpreted to provide the broadest possible restriction permitted by law and will be deemed not to affect or impair the validity of any other covenant or provision of this Agreement, which shall remain in full force and effect.

- (c) The Executive acknowledges and agrees the Company and the Affiliate will suffer irreparable harm in the event that the Executive breaches any of its obligations under Sections 11, 12, 13, 14 or 15 of this Agreement, and that monetary damages would be impossible to quantify and inadequate to compensate the Company and its Affiliates for such a breach. Accordingly, the Executive agrees that in the event of any breach or a threatened breach by the Executive of any of the provisions of this Agreement, the Company and each of its Affiliates shall be entitled to seek, in addition to any other rights, remedies or damages available to the Company at law or in equity, an interim and permanent injunction, in order to prevent or restrain any such breach or threatened breach by the Executive, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security.
- (d) The restrictions and obligations of the Executive under Sections 11, 12, 13, 14 and 15 of this Agreement shall survive the termination of this Agreement for any reason.

## **20. Third-Party Beneficiaries**

The Parent and each other Affiliate of the Company that is not a signatory to this Agreement shall be a third-party beneficiary of the Executive's representations, covenants, and obligations under Sections 11, 12, 13, 14 and 15 and shall be entitled to enforce such representations, covenants, and obligations as if a party hereto.

## **21. Entire Agreement, Amendment, No Waiver**

This Agreement constitutes the entire agreement between the parties hereto and between the Executive and any other Affiliate of the Company regarding the subject matter hereof, and shall supersede and replace any and all prior agreements, undertakings, representations or negotiations (including the offer letter from the Parent to the Executive dated February 21, 2020). There are no warranties, representations or agreements between the parties except as specifically set forth or referred to in this Agreement. Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall the waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

**22. Assignment**

Neither the Executive nor the Company may assign its rights hereunder without the consent of the other party; provided, however, that the Company may assign its rights hereunder without the Executive's consent to any Affiliate of the Company or to a successor Company which acquires (whether directly or indirectly, by purchase, amalgamation, arrangement, merger, consolidation, dissolution or otherwise) all or substantially all of the business and/or assets of the Company and expressly assumes and agrees to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

**23. Currency**

All amounts in this Agreement are in United States currency unless otherwise specified.

**24. Governing Law; Submission to Jurisdiction**

This Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflict of laws principles that would result in the application of the laws of another jurisdiction. With respect to any claim or dispute related to or arising under this Agreement, the parties hereby consent to the exclusive jurisdiction, forum and venue of the state and federal courts (as applicable) located in Dallas County, Texas. THE PARTIES EXPRESSLY ACKNOWLEDGE AND AGREE THAT THEY ARE KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVING THEIR RIGHTS TO A JURY TRIAL.

**25. Severability**

If an arbitrator or court of competent jurisdiction determines that any provision of this Agreement (or portion thereof) is invalid or unenforceable, then the invalidity or unenforceability of that provision (or portion thereof) shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

**26. Waiver of Breach**

Any waiver of this Agreement must be executed by the party to be bound by such waiver. No waiver by either party hereto of a breach of any provision of this Agreement by the other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time.

**27. Section 409A**

- (a) Notwithstanding any provision of this Agreement to the contrary, all provisions of this Agreement are intended to comply with Section 409A of the Internal Revenue Code of 1986 (the "**Code**"), and the applicable Treasury regulations and administrative guidance issued thereunder (collectively, "**Section 409A**") or an exemption therefrom and shall be construed and administered in accordance with such intent. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service

or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of the Executive's employment shall only be made if such termination of employment constitutes a "separation from service" under Section 409A.

- (b) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A), (i) any such expense reimbursement shall be made by the Company no later than the last day of the Executive's taxable year following the taxable year in which such expense was incurred by the Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; provided, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period in which the arrangement is in effect.
- (c) Notwithstanding any provision in this Agreement to the contrary, if any payment or benefit provided for herein would be subject to additional taxes and interest under Section 409A if the Executive's receipt of such payment or benefit is not delayed until the earlier of (i) the date of the Executive's death or (ii) the date that is six (6) months after the Termination Date (such date, the "**Section 409A Payment Date**"), then such payment or benefit shall not be provided to the Executive (or the Executive's estate, if applicable) until the Section 409A Payment Date. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement are exempt from, or compliant with, Section 409A and in no event shall the Company or any of its Affiliates be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.

## **28. Clawback**

Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to the Executive pursuant to this Agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation, or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation, or stock exchange listing requirement (or any policy adopted by the Company, whether in existence as of the Effective Date or later adopted, pursuant to any such law, government regulation or stock exchange listing requirement).

**29. Counterparts**

This Agreement may be signed in counterparts and by facsimile or .pdf electronic mail transmission and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument.

*[Signature page follows]*

**IN WITNESS WHEREOF** the parties acknowledge and agree that they have read and understand the terms of this Agreement, and that they have had an opportunity to seek independent legal advice prior to entering into this Agreement, and have executed this Agreement as of the Effective Date.

**DIRTT ENVIRONMENTAL SOLUTIONS, INC.**

By: /s/ Kevin P. O'meara

Name: Kevin P. O'Meara

Title: Chief Executive Officer

**LINDSAY GUSSO**

/s/ Lindsay Gusso

[Specific terms in this Exhibit have been redacted because such terms are both not material and would likely cause competitive harm to the company if publicly disclosed. These redacted terms have been marked in this Exhibit with three asterisks [\*\*\*].]

**SECOND AMENDMENT TO LEASE**

THIS SECOND AMENDMENT TO LEASE (this “**Amendment**”) is made as of the 6th day of July, 2020 (the “**Effective Date**”), by and between SP ROCK HILL LEGACY EAST #1, LLC, an Indiana limited liability company (“**Landlord**”), and DIRTT ENVIRONMENTAL SOLUTIONS, INC., a Colorado corporation (“**Tenant**”).

**RECITALS**

- A. Landlord and Tenant entered into that certain Lease Agreement, dated October 7, 2019, as amended by that certain First Amendment to Lease dated December 2, 2019 (collectively, the “**Original Lease**”) covering the parcel of real estate located at the northeast quadrant of Williamson Parkway and Highway 21 in Rock Hill, South Carolina that is more particularly described in the Original Lease, upon which a building consisting of approximately [\*\*\*] square feet is to be built.
- B. The costs for the Tenant Finish Work have already exceeded the Tenant Finish Allowance of \$[\*\*\*] and Tenant has requested that Landlord increase the Tenant Finish Allowance to \$[\*\*\*].
- C. Landlord and Tenant now desire to amend the Original Lease all in accordance with the terms and conditions set forth below.

**AGREEMENT**

In consideration of the mutual covenants contained in the Lease and this Amendment and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, Landlord and Tenant agree as follows:

- 1. **Recitals and Definitions.** The Recitals set forth above are hereby incorporated by reference. In the event of any inconsistency between the provisions of this Amendment and the Lease, the terms and provisions of this Amendment shall govern and control. All provisions of the Lease not expressly modified or amended hereby are hereby reaffirmed and shall remain in full force and effect. Any capitalized term used and not otherwise defined herein shall have the meaning ascribed to it in the Lease
- 2. **Base Rent.** Section 3(a) of the Lease is hereby amended and restated in its entirety as follows:  
 “(a) **Payment of Base Rent.** Subject to any adjustments in accordance with Section 4(g) below, Tenant shall pay to Landlord annual base rent (the “**Base Rent**”) for the Leased Premises in the amounts provided in the table below.

Period	Monthly Base Rent	Annual Base Rent
Months 1-2*	\$ [***]*	\$ [***]*
Months 3-12	\$ [***]	\$ [***]
Months 13-24	\$ [***]	\$ [***]
Months 25-36	\$ [***]	\$ [***]
Months 37-48	\$ [***]	\$ [***]
Months 49-60	\$ [***]	\$ [***]
Months 61-72	\$ [***]	\$ [***]
Months 73-84	\$ [***]	\$ [***]
Months 85-96	\$ [***]	\$ [***]
Months 97-108	\$ [***]	\$ [***]

Months 109-120	\$	[***]	\$	[***]
Months 121-132	\$	[***]	\$	[***]
Months 133-144	\$	[***]	\$	[***]
Months 145-156	\$	[***]	\$	[***]
Months 157-168	\$	[***]	\$	[***]
Months 169-180	\$	[***]	\$	[***]

First Renewal Term

Months 180-240

See Section 2(b)(ii).

Second Renewal Term

Months 240-300

See Section 2(b)(ii).

\* In consideration for Tenant’s compliance with the terms and conditions set forth in this Lease, Tenant shall not be required to pay Base Rent for the first full two calendar months of the Initial Term (the “**Incentive Period**”). The sum of such Base Rent for the Premises for the Incentive Period equals the amount of \$[\*\*\*] (the “**Rental Incentive**”); provided, however, that notwithstanding anything contained in this Lease to the contrary, in the event of a default by Tenant under this Lease, Landlord shall be entitled to collect from Tenant the Rental Incentive, and the full amount of same shall be immediately due and payable by Tenant to Landlord, in addition to any other rights and remedies of Landlord upon a default by Tenant under this Lease.

Base Rent shall be payable in equal monthly installments and in advance (without abatement, offset, deduction or prior demand, except as otherwise specifically set forth herein) on or before the first day of each full and partial calendar month during the Lease Term; provided that, if the Lease Term expires or commences on a date other than the first day or last day of a calendar month, then the Base Rent payable for such partial calendar month shall be an amount equal to the monthly installment of Base Rent otherwise then in effect, divided by the number of days in the full calendar month during which the Lease Term expires, and multiplied by the number of days in such partial calendar.”

**3. Option to Terminate.**

(a) Termination Date. The “**Termination Date**” as used in the Lease, is hereby amended to mean the date that is the one hundred twenty-second (122) monthly anniversary of (i) the Commencement Date if the Commencement Date is the first day of a calendar month, or (ii) the first day of the first full calendar month following the Commencement Date if the Commencement Date is not the first day of a calendar month.

(b) Termination Fee. The “**Termination Fee**” as used in the Lease, is hereby amended to mean an amount equal to [\*\*\*] (\$[\*\*\*]).

**4. Improvement Allowance.** The “**Tenant Finish Allowance**” as used in the Lease, is hereby amended to mean a one-time improvement allowance in the amount of \$[\*\*\*]. Tenant acknowledges and agrees that a portion of the Tenant Finish Allowance in the amount of \$[\*\*\*] has already been utilized.

**5. Broker.** Tenant represents that it has had no dealings, negotiations or consultations with any broker, representative, employee, or agent in connection with this Amendment. Tenant shall indemnify, defend and hold harmless Landlord from all loss, damage, cost or expense, including attorneys’ fees, arising out of the claim of any other broker, representative, employee, agent or other intermediary claiming to have represented Tenant or to be entitled to compensation in connection with the execution of this Lease.

6. **Authority.** Each party represents to the other that it has full power, capacity, authority and legal right to execute and deliver this Amendment and to perform all of its obligations hereunder.

7. **General.** Except as amended by this Amendment, the Original Lease shall continue in full force and effect and is ratified and affirmed. In the event of a conflict between the terms and conditions of the Original Lease and the terms and conditions of this Amendment, the terms of this Amendment shall prevail. This Amendment may be executed in several counterparts, all of which are identical and all of which counterparts together shall constitute one and the same instrument. To facilitate execution of this Amendment, the parties may execute and exchange counterparts of the signature pages of this Amendment by electronic transmission.

**[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK;  
SIGNATURE PAGE FOLLOWS]**

**SIGNATURE PAGE TO SECOND AMENDMENT TO LEASE**

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year first above written.

**LANDLORD:**

SP ROCK HILL LEGACY EAST #1, LLC, an Indiana limited liability company

By: /s/ Marc Pflieger  
Printed: Marc Pflieger  
Title: Manager

**TENANT:**

DIRTT ENVIRONMENTAL SOLUTIONS, Inc., a Colorado corporation

By: /s/ Kevin O'Meara  
Printed: Kevin O'Meara  
Title: Chief Executive Officer

**REAFFIRMATION OF GUARANTY**

DIRTT ENVIRONMENTAL SOLUTIONS LTD. ("**Guarantor**") hereby swears and affirms that the Guaranty dated October 7, 2019 (the "**Guaranty**") by Guarantor in favor of SP Rock hill legacy East #1, LLC, an Indiana limited liability company, shall remain in full force and effect upon the execution of the foregoing Amendment and that the Guarantor, consistent with the terms of the Lease and the Guaranty, shall continue to guaranty the full and prompt payment and performance of all of the Obligations (as defined in the Guaranty). Guarantor further agrees that any and all references to the Lease set forth in the Guaranty shall mean the Lease as amended by the foregoing Amendment and any further amendment or modification that Landlord and the tenant thereunder may agree upon, and that the "Obligations" include those obligations arising in connection with the foregoing Amendment.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty as of the day and year first above written in the foregoing Amendment.

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

By: /s/ Kevin O'Meara  
Printed: Kevin O'Meara  
Title: Chief Executive Officer

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin O'Meara, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DIRT Environmental Solutions Ltd. (the "registrant") for the quarter ended June 30, 2020;
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 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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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
  - c. 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. The registrant's other certifying officer and I have disclosed, based on our 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: July 29, 2020

By: /s/ Kevin O'Meara  
Kevin O'Meara  
Chief Executive Officer  
*(Principal Executive Officer)*

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Geoffrey D. Krause, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DIRT Environmental Solutions Ltd. (the “registrant”) for the quarter ended June 30, 2020;
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 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. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our 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
  - c. 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. The registrant's other certifying officer and I have disclosed, based on our 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: July 29, 2020

By: /s/ Geoffrey D. Krause  
Geoffrey D. Krause  
Chief Financial Officer  
*(Principal Financial Officer)*

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

In connection with the Quarterly Report on Form 10-Q of DIRTT Environmental Solutions Ltd. (the “Company”) for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin O’Meara, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2020

By: /s/ Kevin O’Meara  
Kevin O’Meara  
Chief Executive Officer  
*(Principal Executive Officer)*

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

In connection with the Quarterly Report on Form 10-Q of DIRTT Environmental Solutions Ltd. (the “Company”) for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Geoffrey D. Krause, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2020

By: /s/ Geoffrey D. Krause  
Geoffrey D. Krause  
Chief Financial Officer  
*(Principal Financial Officer)*