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

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 2022**

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 85,867,270 common shares outstanding as of May 2, 2022.

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**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED MARCH 31, 2022**

**TABLE OF CONTENTS**

	<u>Page</u>
<a href="#"><u>Cautionary Statement Regarding Forward-Looking Statements</u></a> .....	ii
<a href="#"><u>PART I – FINANCIAL INFORMATION</u></a> .....	4
<a href="#"><u>Item 1. Financial Statements (Unaudited)</u></a> .....	4
<a href="#"><u>Interim Condensed Consolidated Balance Sheets</u></a> .....	4
<a href="#"><u>Interim Condensed Consolidated Statement of Operations and Comprehensive Loss</u></a> .....	5
<a href="#"><u>Interim Condensed Consolidated Statement of Changes in Shareholders' Equity</u></a> .....	6
<a href="#"><u>Interim Condensed Consolidated Statement of Cash Flows</u></a> .....	7
<a href="#"><u>Notes to the Unaudited Interim Condensed Consolidated Financial Statements</u></a> .....	8
<a href="#"><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a> .....	18
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></a> .....	30
<a href="#"><u>Item 4. Controls and Procedures</u></a> .....	30
<a href="#"><u>PART II – OTHER INFORMATION</u></a> .....	32
<a href="#"><u>Item 1. Legal Proceedings</u></a> .....	32
<a href="#"><u>Item 1A. Risk Factors</u></a> .....	32
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></a> .....	32
<a href="#"><u>Item 3. Defaults Upon Senior Securities</u></a> .....	32
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a> .....	32
<a href="#"><u>Item 5. Other Information</u></a> .....	32
<a href="#"><u>Item 6. Exhibits</u></a> .....	33

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 (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 Securities 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, 2021, filed with the U.S. Securities and Exchange Commission (the “SEC”) and applicable securities commissions or similar regulatory authorities in Canada on February 23, 2022 (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:

- the impact of the COVID-19 pandemic and any strain variants or resurgences thereof on our business;
- our ability to implement our strategic plan, including realizing on certain cost-optimization initiatives undertaken in 2022;
- the effect of the cost saving initiatives the Company announced in February 2022;
- turnover of our key executives, recruitment efforts to find a permanent chief executive officer, and difficulties in recruiting or retaining key employees;
- the ability of our reconstituted board of directors to successfully implement its transformation plan;
- our ability to maintain and manage growth effectively;
- competition in the interior construction industry;
- competitive behaviors by our co-founders and former executives;
- 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 introduce new designs, solutions and technology and gain client and market acceptance;
- defects in our designing and manufacturing software and warranty and product liability claims brought against us;
- material fluctuations of commodity prices, including raw materials;
- shortages of supplies of certain key components and materials or disruption in supplies due to global events, including the COVID-19 pandemic;
- global economic, political and social conditions and financial markets;
- our exposure to currency exchange rates, tax rates and other fluctuations, including those resulting from changes in laws or administrative practice;

- legal and regulatory proceedings brought against us;
- infringement on our patents and other intellectual property;
- cyber-attacks and other security breaches of our information and technology systems;
- damage to our information technology and software systems;
- our requirements to comply with applicable environmental, health and safety laws, including those relating to the COVID-19 pandemic;
- our ability to generate sufficient revenue to achieve and sustain profitability;
- our periodic fluctuations in results of operations and financial conditions;
- volatility of our share price;
- the effect of being governed by the corporate laws of a foreign country, including the difficulty of enforcing civil liabilities against directors and officers residing in a foreign country;
- the availability of capital or financing on acceptable terms, which may impact our liquidity and impair our ability to make investments in the business;
- the availability and treatment of government subsidies (including any current or future requirements to repay or return such subsidies); and
- future mergers, acquisitions, agreements, consolidations or other corporate transactions we may engage in.

These risks are not exhaustive. Because of these risks and other 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 March 31, 2022	As at December 31, 2021
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	38,861	60,313
Restricted cash	3,224	3,095
Trade and other receivables, net of expected credit losses of \$0.1 million at March 31, 2022 and at December 31, 2021	22,590	17,540
Inventory	22,114	18,457
Prepays and other current assets	4,497	4,399
<b>Total Current Assets</b>	<b>91,286</b>	<b>103,804</b>
Property, plant and equipment, net	48,742	51,697
Capitalized software, net	6,709	7,395
Operating lease right-of-use assets, net	31,932	30,880
Other assets	5,787	5,663
<b>Total Assets</b>	<b>184,456</b>	<b>199,439</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	24,437	22,751
Other liabilities	2,359	2,379
Customer deposits and deferred revenue	5,768	2,420
Current portion of long-term debt and accrued interest	3,321	3,323
Current portion of lease liabilities	6,113	6,214
<b>Total Current Liabilities</b>	<b>41,998</b>	<b>37,087</b>
Long-term debt	67,673	67,319
Long-term lease liabilities	28,487	27,267
<b>Total Liabilities</b>	<b>138,158</b>	<b>131,673</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, unlimited authorized without par value, 85,832,977 issued and outstanding at March 31, 2022 and 85,345,433 at December 31, 2021	182,985	181,782
Additional paid-in capital	13,147	13,200
Accumulated other comprehensive loss	(15,483)	(15,916)
Accumulated deficit	(134,351)	(111,300)
<b>Total Shareholders' Equity</b>	<b>46,298</b>	<b>67,766</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>184,456</b>	<b>199,439</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 March 31,	
	2022	2021
Product revenue	37,451	28,542
Service revenue	835	923
<b>Total revenue</b>	<b>38,286</b>	<b>29,465</b>
Product cost of sales	34,607	23,551
Costs of under-utilized capacity	-	1,756
Service cost of sales	392	788
<b>Total cost of sales</b>	<b>34,999</b>	<b>26,095</b>
<b>Gross profit</b>	<b>3,287</b>	<b>3,370</b>
<b>Expenses</b>		
Sales and marketing	7,228	6,670
General and administrative	7,993	7,241
Operations support	2,498	2,297
Technology and development	2,140	1,935
Stock-based compensation	1,302	1,094
Reorganization	3,692	-
<b>Total operating expenses</b>	<b>24,853</b>	<b>19,237</b>
<b>Operating loss</b>	<b>(21,566)</b>	<b>(15,867)</b>
Government subsidies	575	4,068
Foreign exchange loss	(732)	(180)
Interest income	11	19
Interest expense	(1,330)	(500)
	<b>(1,476)</b>	<b>3,407</b>
<b>Loss before tax</b>	<b>(23,042)</b>	<b>(12,460)</b>
<b>Income taxes</b>		
Deferred tax expense	-	39
	-	<b>39</b>
<b>Net loss</b>	<b>(23,042)</b>	<b>(12,499)</b>
<b>Loss per share</b>		
Basic and diluted loss per share	(0.27)	(0.15)
<b>Weighted average number of shares outstanding</b> (in thousands)		
Basic and Diluted	85,451	84,681

**Interim Condensed Consolidated Statement of Comprehensive Loss**

	For the Three Months Ended March 31,	
	2022	2021
Loss for the period	(23,042)	(12,499)
Exchange differences on translation of foreign operations	433	605
<b>Comprehensive loss for the period</b>	<b>(22,609)</b>	<b>(11,894)</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 loss	Accumulated deficit	Total shareholders' equity
<b>As at December 31, 2020</b>	<b>84,681,364</b>	<b>180,639</b>	<b>10,175</b>	<b>(17,018)</b>	<b>(57,265)</b>	<b>116,531</b>
Stock-based compensation	-	-	796	-	-	796
Foreign currency translation adjustment	-	-	-	605	-	605
Net loss for the period	-	-	-	-	(12,499)	(12,499)
<b>As at March 31, 2021</b>	<b>84,681,364</b>	<b>180,639</b>	<b>10,971</b>	<b>(16,413)</b>	<b>(69,764)</b>	<b>105,433</b>
<b>As at December 31, 2021</b>	<b>85,345,433</b>	<b>181,782</b>	<b>13,200</b>	<b>(15,916)</b>	<b>(111,300)</b>	<b>67,766</b>
Stock-based compensation	-	-	1,339	-	-	1,339
Issued on vesting of RSUs and Share Awards	487,544	1,203	(1,203)	-	-	-
RSUs and Share Awards withheld to settle employee tax obligations	-	-	(189)	-	(9)	(198)
Foreign currency translation adjustment	-	-	-	433	-	433
Net loss for the period	-	-	-	-	(23,042)	(23,042)
<b>As at March 31, 2022</b>	<b>85,832,977</b>	<b>182,985</b>	<b>13,147</b>	<b>(15,483)</b>	<b>(134,351)</b>	<b>46,298</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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities:</b>		
Net loss for the period	(23,042)	(12,499)
<b>Adjustments:</b>		
Depreciation and amortization	4,622	3,402
Stock-based compensation, net of settlements	1,302	1,094
Foreign exchange loss	651	172
Accretion of convertible debentures	165	53
Deferred income tax expense	-	39
<b>Changes in operating assets and liabilities:</b>		
Trade and other receivables	(4,966)	(243)
Inventory	(3,443)	197
Prepaid and other assets, current and long term	(108)	(948)
Accounts payable and accrued liabilities	2,460	(5,934)
Other liabilities	-	507
Customer deposits and deferred revenue	3,332	1,607
Current portion of long-term debt and accrued interest	(56)	320
Lease liabilities	41	139
<b>Net cash flows used in operating activities</b>	<b>(19,042)</b>	<b>(12,094)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment, net of accounts payable changes	(963)	(2,908)
Capitalized software development expenditures	(483)	(705)
Other asset expenditures	(174)	-
Recovery of software development expenditures	-	24
<b>Net cash flows used in investing activities</b>	<b>(1,620)</b>	<b>(3,589)</b>
<b>Cash flows from financing activities:</b>		
Proceeds received on long-term debt	-	29,545
Repayment of long-term debt	(618)	(208)
Employee tax payments on vesting of RSUs	(209)	-
<b>Net cash flows (used in) provided by financing activities</b>	<b>(827)</b>	<b>29,337</b>
Effect of foreign exchange on cash, cash equivalents and restricted cash	166	303
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(21,323)</b>	<b>13,957</b>
Cash, cash equivalents and restricted cash, beginning of period	63,408	45,846
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>42,085</b>	<b>59,803</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	(1,152)	(62)
Income taxes received	25	-

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets.

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	38,861	58,656
Restricted cash	3,224	1,147
<b>Total cash, cash equivalents and restricted cash</b>	<b>42,085</b>	<b>59,803</b>

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 subsidiary (“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 ICE® software (“ICE” or “ICE Software”) with integrated in-house manufacturing of its innovative prefabricated interior construction solutions and an extensive network of distribution partners (“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 – 30th Street S.E., Calgary, AB, Canada T2C 1N6 and its registered office is located at 4500, 855 – 2nd 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 (“GAAP”) 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 March 31, 2022, and its results of operations and cash flows for the three months ended March 31, 2022 and 2021. The condensed balance sheet at December 31, 2021, 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, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 included in the Annual Report on Form 10-K of the Company as filed with the U.S. Securities and Exchange Commission and applicable securities commission or similar regulatory authorities in Canada. As described in Note 5, the Company adopted ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* effective January 1, 2022. There was no impact of this standard on our disclosures or accounting for government assistance.

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 subsidiary. All intercompany balances, income and expenses, unrealized gains and losses and dividends 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 resulting adverse economic conditions have negatively impacted construction activity and consequently DIRT's business, with significant negative impacts extending through 2021, 2022 and potentially beyond.

While many construction sites remain open and re-opening strategies have been implemented across North America, certain projects have experienced 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. It is not possible to predict the timing and pace of economic recovery, or the resumption of delayed construction activity and related demand, nor is it possible to predict the impact of such developments on the Company's ability to achieve its business objectives.

COVID-19 has increased the complexity of estimates and assumptions used to prepare the Company's consolidated financial statements and the following key sources of estimation uncertainty:

#### *Credit risk*

COVID-19 may cause DIRT's Distribution Partners and customers to experience liquidity issues and this may result in higher expected credit losses or slower collections. Management continually assesses the impact of COVID-19 on the Company's Distribution Partners and determined no change to the Company's provision for credit losses of \$0.1 million was required during the first quarter of 2022. The estimation of such credit losses is complex because of limited historical precedent for the current economic situation. In addition, the Company maintains trade credit insurance (see Note 6) as further protection from credit losses.

#### *Liquidity risk*

The Company may have lower cash flows from operating activities available to service debts due to lower sales or collections as a result of COVID-19. To address this risk and the uncertainty around the timing of a recovery from COVID-19, the Company issued the Debentures (as defined below) in January and December of 2021, for net proceeds of \$29.5 million and \$25.6 million, respectively, and has credit facilities available. See Note 8 for information about our credit facilities. See Note 4 for information about reorganization activities.

#### *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"). The CEWS provided the Company with a taxable subsidy in respect of a specific portion of wages paid to Canadian employees during qualifying periods extending from March 15, 2020 to October 23, 2021 based on the percentage decline of certain of the Company's Canadian sourced revenues during each qualifying period. The Company's eligibility for the CEWS was subject to change for each qualifying period and was reviewed by the Company for each qualifying period, with amounts being received by the Company for various, but not each, qualifying period. Pursuant to amendments enacted as part of the 2021 Canadian federal budget, the Company is required to repay a portion of the CEWS amounts received for any qualifying period commencing after June 5, 2021 where the aggregate compensation for "specified executives" (within the meaning of the CEWS) during the 2021 calendar year exceeds the aggregate compensation for "specified executives" during the 2019 calendar year. Upon finalization of 2021 compensation to specified executives, approximately C\$0.5 million (\$0.4 million) of subsidies is expected to be repaid to the Canadian authorities in the second quarter of 2022. The repayment amount was fully provided for in the third quarter of 2021 in accounts payable and accrued liabilities and in the first quarter of 2022 the Company reversed a \$0.6 million incremental provision related to this that is no longer necessary.

On November 19, 2020, the Canadian government also implemented the Canada Emergency Rent Subsidy (“CERS”). The CERS provided a taxable subsidy to cover eligible expenses for qualifying properties, subject to certain maximums, for qualifying periods extending from September 27, 2020 to October 23, 2021, with the amount of the subsidy available to the Company being based on the percentage decline of certain of the Company’s Canadian-sourced revenues in each qualifying period. The Company’s eligibility for the CERS was subject to change for each qualifying period and was reviewed by the Company for each qualifying period.

The CEWS and CERS programs ended on October 23, 2021. The Company is not eligible and did not receive any new government subsidies in the quarter ended March 31, 2022.

#### *Impairment*

At March 31, 2022, management determined an impairment provision was not required as our outlook is consistent with the assumptions used in our impairment test undertaken at December 31, 2021. In future periods, if our results or outlook are less than our forecast, this determination may need to be revisited.

#### **4. REORGANIZATION**

On February 22, 2022, we commenced the process of closing our Phoenix aluminum manufacturing facility (the “Phoenix Facility”), shifting related manufacturing to both our Savannah and Calgary aluminum manufacturing facilities. Additionally, we announced our intention to eliminate a portion of our salaried workforce including manufacturing and office positions along with other cost reduction initiatives. The closure of the Phoenix Facility is expected to be substantially completed in the second quarter of 2022. The Company did not impair its Right of Use assets associated with the Phoenix Facility as the Company expects to be able to sublease the Phoenix Facility and recover the \$5.1 million of contractual lease commitments.

Reorganization costs incurred in the quarter of \$3.7 million include \$3.1 million related to termination benefits, \$0.1 million associated with the closure of the Phoenix Facility, and \$0.5 million of other costs. Of the amount expensed, \$1.6 million was paid and \$1.9 million of termination benefits and \$0.2 million of other costs were included in accounts payable and accrued liabilities at March 31, 2022. We anticipate a further \$4.4 million of costs in the second quarter of 2022, as the Company incurred a \$3.1 million charge for incremental insurance on change of control of the board on April 26, 2022.

The Company accelerated the depreciation of certain items of property, plant and equipment and capitalized software associated with these decisions resulting in an additional \$1.1 million of depreciation and amortization incurred in the quarter.

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

In 2021, the Financial Accounting Standards Board issued Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The ASU provides guidance on required disclosures with respect to government assistance in a company’s notes to the annual financial statements. The amendments in the ASU are effective for periods beginning after December 15, 2021. The Company has adopted this standard effective January 1, 2022 and notes there is no significant impact of this standard on our accounting or disclosures for government assistance.

Although there are several other new accounting standards issued or proposed by the Financial Accounting Standards Board, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on its Financial Statements.

#### **6. 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 March 31, 2022, approximately 82% 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, which have arisen since April 1, 2020 when the trade credit insurance became effective.

Our trade balances are spread over a broad Distribution Partner base, which is geographically dispersed. For the three months ended March 31, 2022 no Distribution Partner accounted for greater than 10% of revenue (2021: One Distribution Partner: \$3.6 million). 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	
	March 31, 2022	December 31, 2021
Current	18,167	13,659
Overdue	977	621
	<b>19,144</b>	<b>14,280</b>
Less: expected credit losses	(132)	(130)
	<b>19,012</b>	<b>14,150</b>
Sales tax receivable	411	196
Income tax receivable	3,167	3,194
	<b>22,590</b>	<b>17,540</b>

No adjustment to our expected credit losses of \$0.1 million was required for the quarter ended March 31, 2022. Receivables are generally considered to be past due when over 60 days old unless there is a separate payment arrangement in place for the collection of the receivable.

## 7. OTHER LIABILITIES

	As at,	
	March 31, 2022	December 31, 2021
Legal provisions <sup>(1)</sup>	145	143
DSU liability	759	785
Warranty and other provisions <sup>(2)</sup>	1,455	1,451
Other liabilities	<b>2,359</b>	<b>2,379</b>

(1) The Company has provided \$0.1 million (December 31, 2021 - \$0.1 million) as the estimated amount likely payable for various claims against the Company. The amount provided for is management's best estimate of the potential payments for amounts claimed.

(2) The following table presents a reconciliation of the warranty and other provisions balance:

	March 31, 2022	December 31, 2021
<b>As at January 1</b>	1,451	1,763
Adjustments to timber provision	-	(500)
Additions to warranty provision	150	1,019
Payments related to warranties	(146)	(831)
	<b>1,455</b>	<b>1,451</b>

## 8. LONG-TERM DEBT

	Revolving Credit Facility	Leasing Facilities	Convertible Debentures	Total Debt
<b>Balance on January 1, 2021</b>	-	5,967	-	5,967
Issuances	-	9,805	55,107	64,912
Accretion of issue costs	-	-	352	352
Accrued interest	-	556	1,935	2,491
Interest payments	-	(556)	(987)	(1,543)
Principal repayments	-	(1,808)	-	(1,808)
Exchange differences	-	(55)	326	271
<b>Balance at December 31, 2021</b>	-	13,909	56,733	70,642
Current portion of long-term debt and accrued interest	-	2,386	937	3,323
Long-term debt	-	11,523	55,796	67,319
<b>Balance on December 31, 2021</b>	-	13,909	56,733	70,642
Accretion of issue costs	-	-	165	165
Accrued interest	-	187	909	1,096
Interest payments	-	(187)	(965)	(1,152)
Principal repayments	-	(618)	-	(618)
Exchange differences	-	30	831	861
<b>Balance at March 31, 2022</b>	-	13,321	57,673	70,994
Current portion of long-term debt and accrued interest	-	2,423	898	3,321
Long-term debt	-	10,898	56,775	67,673

### *Revolving Credit Facility*

On February 12, 2021, the Company entered into a loan agreement governing a C\$25.0 million senior secured revolving credit facility with the Royal Bank of Canada (“RBC”), as lender (the “RBC Facility”). Under the RBC Facility, the Company is able to borrow up to a maximum of 90% of investment grade or insured accounts receivable plus 85% of eligible accounts receivable plus the lesser of (i) 75% of the book value of eligible inventory and (ii) 85% of the net orderly liquidation value of eligible inventory less any reserves for potential prior ranking claims (the “Borrowing Base”). At March 31, 2022, available borrowings are C\$14.5 million (\$11.6 million), of which no amounts have been drawn. Interest is calculated at the Canadian or U.S. prime rate plus 30 basis points or at the Canadian Dollar Offered Rate or LIBOR plus 155 basis points. Under the RBC Facility, if the “Aggregate Excess Availability”, defined as the Borrowing Base less any loan advances or letters of credit or guarantee and if undrawn including unrestricted cash, is less than C\$5.0 million, the Company is subject to a fixed charge coverage ratio (“FCCR”) covenant of 1.10:1 on a trailing twelve-month basis. Additionally, if the FCCR has been below 1.10:1 for the three immediately preceding months, the Company is required to maintain a reserve account equal to the aggregate of one year of payments on outstanding loans on the Leasing Facilities (defined below). The Company did not meet the three-month FCCR requirement during the first quarter of 2022 which resulted in requiring the restriction of \$3.2 million of cash. Should an event of default occur or the Aggregate Excess Availability be less than C\$6.25 million for five consecutive business days, the Company would enter a cash dominion period whereby the Company’s bank accounts would be blocked by RBC and daily balances will set-off any borrowings and any remaining amounts made available to the Company.

### *Leasing Facilities*

The Company has a C\$5.0 million equipment leasing facility in Canada (the “Canada Leasing Facility”) and a \$14.0 million equipment leasing facility in the United States (the “U.S. Leasing Facility”) and, together with the Canada Leasing Facility, the “Leasing Facilities”) with RBC, and one of its affiliates, 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 5.59%. The U.S. Leasing Facility is amortized over a six-year term and extendible at the Company’s option for an additional year.

During the first quarter of 2022, the Company received \$nil (twelve months ended December 31, 2021: \$9.8 million) of cash consideration under the U.S. Leasing Facility. The associated financial liabilities are shown on the

consolidated balance sheet in current other liabilities and long-term debt. Subsequent to March 31, 2022, the Company received C\$0.9 million (\$0.7 million) under the Canada Leasing Facility.

### *Convertible Debentures*

On January 25, 2021, the Company completed a C\$35.0 million (\$27.5 million) bought-deal financing of convertible unsecured subordinated debentures with a syndicate of underwriters (the “January Debentures”). On January 29, 2021, the Company issued a further C\$5.25 million (\$4.1 million) of the January Debentures under the terms of an overallotment option granted to the underwriters. The January Debentures will mature and be repayable on January 31, 2026 (the “January Debentures Maturity Date”) and will accrue interest at the rate of 6.00% per annum payable semi-annually in arrears on the last day of January and July of each year commencing on July 31, 2021 until the January Debentures Maturity Date. Interest and principal are payable in cash or shares at the option of the Company. The January Debentures will be convertible into common shares of DIRTT, at the option of the holder, at any time prior to the close of business on the business day prior to the earlier of the January Notes Maturity Date and the date specified by the Company for redemption of the January Debentures at a conversion price of C\$4.65 per common share, being a ratio of approximately 215.0538 common shares per C\$1,000 principal amount of the January Debentures. Costs of the transaction were approximately C\$2.7 million, including the underwriters’ commission.

On December 1, 2021, the Company completed a C\$35.0 million (\$27.4 million) bought-deal financing of convertible unsecured subordinated debentures with a syndicate of underwriters (the “December Debentures” and, together with the January Debentures, the “Debentures”). These December Debentures will mature and be repayable on December 31, 2026 (the “December Debentures Maturity Date”) and will accrue interest at the rate of 6.25% per annum payable semi-annually in arrears on the last day of June and December of each year commencing on June 30, 2022 until the December Debentures Maturity Date. Interest and principal are payable in cash or shares at the option of the Company. The December Debentures will be convertible into common shares of DIRTT, at the option of the holder, at any time prior to the close of business on the business day prior to the earlier of the December Debentures Maturity Date and the date specified by the Company for redemption of the December Debentures at a conversion price of C\$4.20 per common share, being a ratio of approximately 238.0952 common shares per C\$1,000 principal amount of the December Debentures. Costs of the transaction were approximately C\$2.3 million, including the underwriters’ commission.

## **9. 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. Upon vesting of certain LTIP awards, the Company may withhold and sell shares as a means of meeting DIRTT’s tax withholding requirements in respect of the withholding tax remittances required in respect of award holders. To the extent the fair value of the withheld shares upon vesting exceeds the grant date fair value of the instrument, the excess amount is credited to retained earnings or deficit.

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. DSUs are settled solely in cash.

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 March 31,	
	2022	2021
Equity-settled awards	1,339	796
Cash-settled awards	(37)	298
	<b>1,302</b>	<b>1,094</b>

The following summarizes RSUs, Share Awards (as defined below), PSUs, and DSUs activity during the periods:

	RSU Time- Based	RSU Performance- Based	Share Awards	PSU	DSU
	Number of units	Number of units	Number of units	Number of units	Number of units
<b>Outstanding at December 31, 2020</b>	<b>2,414,066</b>	<b>200,000</b>	-	<b>197,471</b>	<b>363,664</b>
Granted	1,890,987	878,601	-	-	31,837
Forfeited	(5,588)	-	-	-	-
<b>Outstanding at March 31, 2021</b>	<b>4,299,465</b>	<b>1,078,601</b>	-	<b>197,471</b>	<b>395,501</b>
<b>Outstanding at December 31, 2021</b>	<b>3,216,536</b>	<b>1,021,739</b>	-	<b>157,200</b>	<b>361,577</b>
Granted	2,109,205	863,279	162,682	-	180,314
Vested	(393,016)	-	(94,528)	-	-
Withheld to settle employee tax obligations	(60,039)	-	(68,154)	-	-
Forfeited	(614,151)	(502,628)	-	-	-
<b>Outstanding at March 31, 2022</b>	<b>4,258,535</b>	<b>1,382,390</b>	-	<b>157,200</b>	<b>541,891</b>

*Restricted share units (time-based vesting)*

Restricted share units that vest based on time have an aggregate time-based vesting period of three years and generally one-third of the RSUs vest every year over a three-year period from the date of grant (“RSUs”). 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 weighted average fair value of the RSUs granted was C\$2.40 (2021 – C\$3.11) which was determined using the closing price of the Company’s common shares on their respective grant dates.

*Restricted share units (performance-based vesting)*

During 2022 and 2021, restricted share units were granted to executives with service and performance-based conditions for vesting (the “PRSUs”). If the Company’s share price increases to certain values for 20 consecutive trading days, as outlined below, a percentage of the PRSUs will vest at the end of the three-year service period. PRSUs awarded in 2020 were forfeited in January 2022 upon the departure of an executive from the Company.

The grant date fair value of the 2022 and 2021 PRSUs were valued using the Monte Carlo valuation method and determined to have a weighted average grant date fair value of C\$1.87 and C\$3.27, respectively.

Based on share price performance since the date of grant, none of the 2022 PRSUs and 66.7% of the 2021 PRSUs will vest upon completion of the three-year service period.

	% of PRSUs Vesting				
	33.3%	50.0%	66.7%	100.0%	150.0%
2022 and 2021 PRSUs	\$ 3.00	\$ -	\$ 4.00	\$ 5.00	\$ 7.00

### Share awards

During the first quarter of 2022, certain executives were issued share awards in lieu of cash paid variable incentive compensation (“Share Awards”). These Share Awards vested upon grant. The fair value of the Share Awards granted was C\$2.40 (\$1.88), which was determined using the closing price of the Company’s common shares on the grant date.

### Deferred share units

The fair value of the DSU liability and the corresponding expense is charged to profit or loss at the grant date. Subsequently, at each reporting date between the grant date and settlement date, the fair value of the liability is remeasured with any changes in fair value recognized in profit or loss for the year. DSUs outstanding at March 31, 2022 had a fair value of \$0.8 million which is included in other liabilities on the balance sheet (December 31, 2021 – \$0.8 million).

### Performance share units

Under the terms of the PSU Plan, PSUs granted vest at the end of a three-year term. At the end of a three-year term, employees will be awarded cash at the discretion of the board of directors of the Company, calculated based on Adjusted EBITDA, total shareholder return, or revenue growth related to performance conditions.

The fair value of the liability and the expense attributable to the vesting period is charged to profit or loss at the grant date. Subsequently, at each reporting date between the grant date and settlement date, the fair value of the liability is remeasured with any changes in fair value recognized in profit or loss. As at March 31, 2022, outstanding PSUs had a fair value of \$nil which is included in other liabilities on the balance sheet (December 31, 2021 – \$nil).

### Options

The following summarizes options granted, exercised, forfeited and expired during the periods:

	Number of options	Weighted average exercise price C\$
<b>Outstanding at December 31, 2020</b>	<b>4,774,328</b>	<b>6.52</b>
Forfeited	(3,213)	6.81
<b>Outstanding at March 31, 2021</b>	<b>4,771,115</b>	<b>6.52</b>
<b>Outstanding at December 31, 2021</b>	<b>4,064,489</b>	<b>6.64</b>
Forfeited	(1,740,915)	6.40
<b>Outstanding at March 31, 2022</b>	<b>2,323,574</b>	<b>6.82</b>
<b>Exercisable at March 31, 2022</b>	<b>2,069,176</b>	<b>6.71</b>

Range of exercise prices outstanding at March 31, 2022:

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	2.64	4.12	15,025	2.64	4.12
C\$5.01 – C\$6.00	-	-	-	-	-	-
C\$6.01 – C\$7.00	1,549,833	1.63	6.36	1,543,901	1.63	6.36
C\$7.01 – C\$8.00	751,204	2.13	7.84	510,250	2.13	7.84
<b>Total</b>	<b>2,323,574</b>			<b>2,069,176</b>		

### Dilutive Instruments

For the three months ended March 31, 2022, 2.3 million options (2021 – 4.8 million), 5.6 million RSUs and PRSUs (2021 – 4.4 million) and 43.0 million shares which would be issued if the principal amount of the Debentures were settled in our common shares at the quarter end share price (2021 – 11.0 million) were excluded from the diluted

weighted average number of common shares calculation as their effect would have been anti-dilutive to the net loss per share.

## 10. 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 11 for the disaggregation of revenue by geographic region.

	For the Three Months Ended March 31,	
	2022	2021
Product	33,193	25,836
Transportation	4,061	2,499
License fees from Distribution Partners	197	207
Total product revenue	<b>37,451</b>	<b>28,542</b>
Installation and other services	835	923
	<b>38,286</b>	<b>29,465</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 March 31,	
	2022	2021
At a point in time	37,254	28,335
Over time	1,032	1,130
	<b>38,286</b>	<b>29,465</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		
	March 31, 2022	December 31, 2021	December 31, 2020
Customer deposits	5,311	1,959	1,292
Deferred revenue	457	461	527
Contract liabilities	<b>5,768</b>	<b>2,420</b>	<b>1,819</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 March 31, 2022 compared to December 31, 2021 mainly due to the timing of orders and payments. Contract liabilities as at December 31, 2021 and 2020, respectively, totaling \$2.1 million and \$1.5 million were recognized as revenue during the three months ended March 31, 2022 and 2021, 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.

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Commercial	24,044	16,144
Healthcare	6,964	6,487
Government	3,281	4,181
Education	2,965	1,523
License fees from Distribution Partners	197	207
Total product and transportation revenue	<b>37,451</b>	<b>28,542</b>
Installation and other services	835	923
	<b>38,286</b>	<b>29,465</b>

### **11. 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, is detailed below.

#### *Revenue from external customers*

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Canada	5,251	2,995
U.S.	33,035	26,470
	<b>38,286</b>	<b>29,465</b>

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

	<b>As at</b>	
	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Canada	34,704	34,912
U.S.	58,466	60,723
	<b>93,170</b>	<b>95,635</b>

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

### **12. INCOME TAXES**

As at March 31, 2022, the Company had a valuation allowance of \$22.8 million against deferred tax assets as the Company has experienced cumulative losses in recent years (December 31, 2021 – \$17.3 million).

### **13. COMMITMENTS**

As at March 31, 2022, the Company had outstanding purchase obligations of approximately \$6.1 million related to inventory and property, plant and equipment purchases (December 31, 2021 – \$3.7 million). As at March 31, 2022, the Company had undiscounted operating lease liabilities of \$50.9 million (December 31, 2021 – \$49.7 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.*

### Summary of Financial Results

- Revenues for the quarter ended March 31, 2022 were \$38.3 million, an increase of \$8.8 million or 30% from \$29.5 million for the period ended March 31, 2021. While the resurgence of COVID-19 infections due to the Omicron variant at the beginning of the year temporarily sent many employees back to their home offices and delayed return dates, DIRT and its partners experienced an uptick in planning activity and opportunities growth which began to translate into orders in March 2022. The full impact of the COVID-19 pandemic was incurred in the first quarter of 2021 when the impact of the contraction in construction activity was experienced and with most of our pre-pandemic projects in process completed in 2020.
- Gross profit and gross profit margin for the quarter ended March 31, 2022 was \$3.3 million or 8.6% of revenue, a decrease of \$0.1 million or 2% from \$3.4 million or 11.4% of revenue for the quarter ended March 31, 2021. The decrease in gross profit margin largely reflects the impact of significant inflationary increases in the realized cost of materials, transportation and packaging and incremental fixed costs of our new manufacturing facility in Rock Hill, South Carolina (the “South Carolina Facility”), partially offset by an improved fixed cost leverage as compared to the prior period as a result of higher activity. Gross profit for the quarter ended March 31, 2022 also included \$1.1 million of accelerated depreciation and amortization arising from a change in useful life of assets.
- The Company implemented an approximate 6.5% overall increase in our product and transportation prices effective on new orders subsequent to November 15, 2021 to offset increased materials, transportation and packaging costs. The impact of these changes was partially realized in the quarter ended March 31, 2022 and is expected to be realized in the latter quarters of 2022. Additionally, the Company announced a further 5% price increase effective June 1, 2022, in response to the continued inflationary impacts to material costs. These increases will be slightly offset by new pricing strategies on Reflect and Inspire product lines.
- Adjusted Gross Profit and Adjusted Gross Profit Margin (see “Non-GAAP Financial Measures”) for the quarter ended March 31, 2022 was \$6.8 million or 17.7%, respectively, a decrease from \$7.2 million or 24.3%, respectively, for the quarter ended March 31, 2021, due to the reasons described above. For the quarter ended March 31, 2021 \$1.8 million of overhead costs were excluded from Adjusted Gross Profit, as these costs were on account of operating at lower than normal capacity levels and were accordingly charged directly and separately to cost of sales rather than as a cost attributable to production.
- Operating expenses increased by \$5.6 million to \$24.9 million in 2022 from \$19.2 million in 2021. This increase is largely due to \$3.7 million in reorganization expenses (discussed below), \$1.5 million of incremental professional fees associated with the contested director elections and an increase in commissions, travel, meals and entertainment costs due to increased business activity and the easing of COVID-19 restrictions. These costs were offset by decreases in salaries and benefits associated with cost reduction measures which were partially realized during the quarter.
- Net loss for the three months ended March 31, 2022 was \$23.0 million compared to \$12.5 million for the three months ended March 31, 2021. The higher net loss is primarily the result of the \$5.6 million increase in operating expenses, a \$3.5 million reduction in government subsidies, a \$0.6 million increase in foreign exchange loss and a \$0.8 million increase in interest expense.
- On February 22, 2022, we announced a plan to close the Phoenix Facility, shifting related manufacturing to both our Savannah and Calgary aluminum facilities. This is expected to result in a net headcount reduction of approximately 26 and annualized cost savings of approximately \$2.4 million. The closure of the Phoenix Facility is expected to be substantially completed in the second quarter of 2022. Additionally, we announced our intention to eliminate approximately 18% of our salaried workforce including manufacturing and office positions which,

along with other cost reduction initiatives, are expected to yield annualized savings of approximately \$13.0 million. One-time costs associated with these reductions and other costs savings measures are approximately \$5.0 million. For the quarter ended March 31, 2022, we incurred \$3.7 million in reorganization costs.

- Adjusted EBITDA (see “– Non-GAAP Financial Measures”) for the quarter ended March 31, 2022 was a \$12.0 million loss or (31.2)%, a decline of \$0.6 million from a \$11.4 million loss or (38.6)% for the quarter ended March 31, 2021 for the above noted reasons. For the quarter ended March 31, 2022, reorganization costs of \$3.7 million were added back in the calculation of Adjusted EBITDA.

## Outlook

On April 26, 2022, at the Company's 2022 annual and special meeting of shareholders, shareholders of the Company elected seven individuals to the Company's board of directors. In total, there were 14 director nominees, seven of whom were nominated by 22 NW Fund, LP and other participants (“22NW”) named in the definitive proxy statement filed on January 7, 2022, as amended. At the meeting, the Company's shareholders elected all seven candidates recommended by 22NW to the board of directors to serve for one-year terms expiring at the Company's 2023 annual meeting of shareholders. Following election and appointment, the board of directors terminated the employment of Todd Lillibridge as Interim Chief Executive Officer and appointed Geoffrey D. Krause and Jeffrey A. Calkins as Interim Co-Chief Executive Officers, in each case effective as of April 26, 2022.

The first quarter of 2022 marked the transition of the COVID-19 pandemic to an endemic with the broad easing of health restrictions, including work-from-home mandates, across North America. While the resurgence of COVID-19 infections due to the Omicron variant at the beginning of the year temporarily sent many employees back to their home offices and delayed return dates, DIRTT and its partners experienced an uptick in planning activity and opportunities growth which began to translate into orders in March 2022. As at April 1, our 12-month forward pipeline including leads increased by 5% to \$318 million from \$302 million at January 1, 2022, comprising of 60% commercial, 19% healthcare, 8% education and 13% government opportunities.

As a result of the slow start to the year, 46% of first quarter revenue was generated in March, which marked the highest revenue month for the company since October 2020 and the second highest revenue month since the start of the pandemic. Our first quarter 2022 revenue of \$38.2 million was at the low end of our estimate of between \$38 and \$42 million, but an increase of 30% over the same period of 2021. To date in the second quarter, activity has been relatively consistent with the March 2022 period. We also continue to experience increased tours, both in person and virtually through our DIRTT Experience Centers (“DXCs”). As a result, we currently expect second quarter revenue to be between \$43 million and \$47 million, an increase of between 13% and 23% from the first quarter of 2022 and between 5% and 14% from the same period of 2021. Based on improving activity levels, we increased our full year revenue targets by \$5 million to between \$175 and \$185 million, with opportunity for additional upside as the year plays out.

During the first quarter of 2022, we made progress on our goal of enhancing partner effectiveness and accountability. On March 28, 2022, we held our first Partner Advisory Council meeting to elevate partner feedback within our organization and provide further insight to support our commercial and operational decision making. This first meeting established the overall objectives and cadence of the Partner Advisory Council and provided initial partner feedback, which the Company is currently evaluating. The Partner Advisory Council is comprised of 17 Distribution Partners that provide both geographic and vertical representation across North America.

Strategic accounts remain a cornerstone in our go to market strategy. In the first quarter of 2022, we refined our strategic account targets to 48 from 55 previously as a result of headcount reductions and an increase in focus. During the quarter, sales to strategic accounts totaled approximately \$6.0 million with product delivered to 22 of the 48 accounts. For the remainder of 2022, we have identified and continue to develop opportunities with 32 of the 48 accounts.

Gross margin and Adjusted Gross Margin were 8.6% and 17.7% respectively, negatively impacted by both the negative leverage in the first two months of 2022 and continued inflationary pressure on raw materials and transportation costs. In response to continued inflationary pressures, we announced a 5% price increase effective June 1, 2022 in addition to the price increase announced in the fourth quarter of 2021. Approximately 75% of our first quarter 2022 revenues reflected the new fourth quarter pricing as we honored pricing previously quoted for

projects in process. In the near to mid-term, we expect inflationary pressures to continue, driven by both increased energy prices and the impact of global tensions on supply as well as a trucking labor shortage. We will continue to assess and implement mitigation strategies where appropriate.

On April 8, 2022, we completed our final shift at the Phoenix Facility and commenced decommissioning activities, including redeployment of certain pieces of manufacturing equipment to Calgary and Rock Hill, shipping and rationalization of aluminum inventory to other aluminum frame plants and subletting of the space. Decommissioning is expected to be complete by the end of the second quarter of 2022 and is expected to eliminate approximately \$2.4 million of annualized costs. Given the uptick in sales activity, in April we began to actively increase variable labor capacity at both our Savannah and Calgary aluminum manufacturing facilities to ensure we can meet our end customer lead times.

In February 2022, we commenced an organization wide restructuring of positions to reduce fixed expenses, resulting in the elimination of approximately 18% of our salaried workforce (excluding those associated with the Phoenix Facility closure) which was largely completed in the first quarter. This, along with other cost reduction initiatives, are expected to result in annualized savings of up to \$13 million. As a result of these activities, including the closure of the Phoenix Facility, we expect to incur reorganization costs of approximately \$5 million, of which \$3.7 million were incurred in the first quarter. We anticipate a further \$4.4 million of reorganization costs in the second quarter, as the Company incurred a \$3.1 million charge for incremental insurance on change of control of the board on April 26, 2022.

We finished the quarter with net working capital of \$49.3 million (December 31, 2021 - \$66.7 million), including unrestricted cash of \$39.0 million (December 31, 2021 - \$60.3 million). Cash usage was driven by the slow start to the quarter which resulted in working capital build combined with one-time reorganization costs and professional fees related to the contested election of directors. We expect cash usage to improve as 2022 progresses as a result of sequential improvements in revenues and a lower fixed cost base, approaching monthly cashflow breakeven in the third or fourth quarters of 2022. That said, we expect one-time costs, comprising of reorganization expenses and activist costs, for the second quarter of 2022 to be consistent with the first quarter of 2022 due to certain insurance payments required on account of the change of control at the board level.

Based on budgeted annual revenue levels, taking into account the initiatives previously described and excluding our related one-time reorganization costs and expected incremental professional fees, (1) we believe that our 2022 net loss and Adjusted EBITDA loss will demonstrate a significant improvement from 2021 levels and, (2) we believe we will experience a decrease in net loss and, correspondingly, a shift to positive Adjusted EBITDA in 2023. This is due to both the improved sales focus and operational efficiencies described above, and an improved macroeconomic environment as the pandemic recovery takes hold and accelerates for DIRT.

## **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, reorganization expense and stock-based compensation. We remove 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 remove the impact of under-utilized capacity from gross profit, and 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 addition, management bases certain forward-looking estimates and budgets on non-GAAP financial measures, primarily Adjusted EBITDA.

Government subsidies, depreciation and amortization, stock-based compensation expense, reorganization expense, foreign exchange gains and losses and impairment expenses 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 receipts and 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 receipts and 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</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</b>	EBITDA adjusted to remove foreign exchange gains or losses; impairment expenses; reorganization expenses, stock-based compensation expense; government subsidies, 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.

## Results of Operations

Three Months Ended March 31, 2022, Compared to Three Months Ended March 31, 2021

	For the Three Months Ended March 31,		
	2022	2021	% Change
	(\$ in thousands)		
Revenue	38,286	29,465	30
Gross Profit	3,287	3,370	(2)
Gross Profit Margin	8.6%	11.4%	
Operating Expenses			
Sales and Marketing	7,228	6,670	8
General and Administrative	7,993	7,241	10
Operations Support	2,498	2,297	9
Technology and Development	2,140	1,935	11
Stock-Based Compensation	1,302	1,094	19
Reorganization	3,692	-	100
<b>Total Operating Expenses</b>	<b>24,853</b>	<b>19,237</b>	<b>29</b>
<b>Operating Loss</b>	<b>(21,566)</b>	<b>(15,867)</b>	<b>36</b>
<b>Operating Margin</b>	<b>(56.3)%</b>	<b>(53.9)%</b>	

### 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:

	For the Three Months Ended March 31,		
	2022	2021	% Change
	(\$ in thousands)		
Product	33,193	25,836	28
Transportation	4,061	2,499	63
License fees from Distribution Partners	197	207	(5)
<b>Total product and transportation revenue</b>	<b>37,451</b>	<b>28,542</b>	<b>31</b>
Installation and other services	835	923	(10)
	<b>38,286</b>	<b>29,465</b>	<b>30</b>

Our sales activity and associated revenues continue to be impacted by the severe economic and social impact of the COVID-19 pandemic since March 2020, including a major contraction in construction activity levels in North America due to work-from-home requirements, lock-down measures and other regulatory responses implemented by governments and public health officials.

During the quarter ended March 31, 2022, revenue was \$38.3 million, an increase of \$8.8 million or 30% from the same period in 2021 and of which 46% was generated in March 2022. The first quarter of 2022 marked the transition of the COVID-19 pandemic to an endemic with the broad easing of health restrictions, including work-from-home mandates, across North America. While the resurgence in COVID-19 infections due to the Omicron variant at the beginning of the year temporarily sent many employees back to their home offices and delayed return dates, the Company and our Distribution Partners experienced an uptick in planning activity and opportunities growth in our commercial vertical which began to translate into orders in March 2022 that has continued into the second quarter. We remain uncertain as to the ongoing impact of the pandemic, including effects of resurgent infection rates due to variants, on future projects that are either in the planning or conceptual stage. It is likely that future projects will experience similar delays as the COVID-19 pandemic runs its course. See Item 1A. "Risk Factors".

In response to significant increases in the costs of raw materials, shipping materials and freight, effective November 16, 2021, DIRTT increased product and transportation prices on new projects by approximately 6.5%, with

the benefits largely expected to be realized in 2022. On February 17, 2022, we announced a further price increase of 5% effective June 1, 2022 as well as pricing strategy changes on our Reflect and Inspire lines of glass wall products, which we expect to result in increased sales volumes of these products. The benefits of these changes are largely expected to be realized in the latter quarters of 2022.

Installation and other services revenue was \$0.8 million for the three months ended March 31, 2022 compared to \$0.9 million in the same period of 2021. 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. At March 31, 2022, we had 70 Distribution Partners servicing multiple locations. During 2021 and the first quarter of 2022, we made several changes and upgrades to our Distribution Partner network, expanding our relationships with new and existing partners and ending our relationships with others. In February 2022, we announced the establishment of a Partner Advisory Council to provide a greater link with Distribution Partners and end clients who they service. The Partner Advisory Council will offer advice on sales and marketing effectiveness, product issues and new market needs, market conditions, competitive landscape, marketing support and other related areas of mutual interest.

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:

	For the Three Months Ended March 31,		
	2022	2021	% Change
	(\$ in thousands)		
Commercial	24,044	16,144	49
Healthcare	6,964	6,487	7
Government	3,281	4,181	(22)
Education	2,965	1,523	95
License fees from Distribution Partners	197	207	(5)
Total product revenue	<b>37,451</b>	<b>28,542</b>	<b>31</b>
Service revenue	835	923	(10)
	<b>38,286</b>	<b>29,465</b>	<b>30</b>

  

	For the Three Months Ended March 31,	
	2022	2021
	(in %)	
Commercial	64	57
Healthcare	19	23
Government	9	15
Education	8	5
<b>Total Product Revenue<sup>(1)</sup></b>	<b>100</b>	<b>100</b>

(1) Excludes license fees from Distribution Partners.

Commercial revenues increased by 49% from the prior year period, reflecting improving market conditions as health restrictions and work-from-home requirements ease and include one large customer in the technology sector of over \$3 million. Healthcare increased by 7% in the first quarter of 2022 from the same period in 2021. Such sales tend to be larger individual projects and are subject to timing due to a typically longer sales cycle, resulting in variability in sales levels. Current quarter healthcare revenues included two large projects of approximately \$3 million, which is consistent with same period of 2021 where we had two separate large projects of approximately \$3 million. Education sales in the first quarter of 2022 increased by 95% over the prior period. At the beginning of the pandemic, education spending effectively paused with many institutions suspending in-person classes. There were no individually significant education projects and the 95% increase represents higher volumes of projects due to the easing of health restrictions and many students returning to in-person learning. Government revenues in the first quarter of 2022

decreased by 22% over the prior period due to a one-time project in the prior period of approximately \$0.8 million that did not recur in the first quarter of 2022.

Revenue continues to be derived almost exclusively from projects in North America and predominantly from the United States. The following table presents our revenue dispersion by geography:

	For the Three Months Ended March 31,		
	2022	2021	% Change
	(\$ in thousands)		
Canada	5,251	2,995	75
U.S.	33,035	26,470	25
	<b>38,286</b>	<b>29,465</b>	<b>30</b>

Historically, approximately 15-25% and 75-85% of revenues are derived from sales to Canada and the United States, respectively. In the quarter ended March 31, 2020, revenues from Canada fell to 10% of total sales while sales to the United States increased to 90%. The geographical split for the quarter ended March 31, 2022 began to return to historical averages and reflects the easing of health restrictions in Canada which was later than the United States.

#### *Sales and Marketing Expenses*

Sales and marketing expenses increased by \$0.6 million to \$7.2 million for the three months ended March 31, 2022 from \$6.7 million for the three months ended March 31, 2021. The increase was largely related to an increase of \$0.4 million in travel, meals and entertainment expenses as business activity has increased and restrictions on travel have eased, a \$0.3 million increase in commissions due to higher sales volumes and increased facilities costs related to the Dallas DXC which opened in the third quarter of 2021, offset by a decrease in salaries and benefits costs.

#### *General and Administrative Expenses*

General and administrative expenses increased \$0.8 million to \$8.0 million for the three months ended March 31, 2022 from \$7.2 million for the three months ended March 31, 2021. The increase reflects \$1.5 million of incremental professional fees associated with the contested election of directors offset by a \$0.7 million decrease in salaries and benefits costs.

#### *Operations Support Expenses*

Operations support is comprised primarily of project managers, order entry and other professionals that facilitate the integration of our Distribution Partner project execution and our manufacturing operations. Operations support expenses increased by \$0.2 million from \$2.3 million for the three months ended March 31, 2021 to \$2.5 million for the three months ended March 31, 2022. The increase was due to lower costs capitalized to internal projects with the completion of the South Carolina Facility and Dallas DXC.

#### *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 \$0.2 million to \$2.1 million for the three months ended March 31, 2022, compared to \$1.9 million for the three months ended March 31, 2021, primarily related to a decrease in capitalized software development costs.

### *Stock-Based Compensation*

Stock-based compensation expense for the three months ended March 31, 2022 was \$1.3 million compared to \$1.1 million in 2021. The increase was largely due to grants of RSUs, including those in lieu of cash compensation to the Company's interim Chief Executive Officer and DSUs granted to the board of directors, lowered by the impact of fair value adjustments on cash settled awards as a result of our share price decreasing during the quarter ended March 31, 2022.

### *Reorganization*

On February 22, 2022, we announced a plan to close the Phoenix Facility, shifting related manufacturing to both our Savannah and Calgary aluminum manufacturing facilities. Additionally, we announced our intention to eliminate approximately 18% of our salaried workforce including manufacturing and office positions which, along with other cost reduction initiatives, are expected to yield annualized savings of approximately \$13.0 million. One-time costs associated with these reductions and other costs savings measures were previously estimated to be \$5 million. For the quarter ended March 31, 2022, we incurred \$3.7 million in reorganization costs, and we anticipate a further \$4.4 million of reorganization costs in the second quarter, as the Company incurred a \$3.1 million charge for incremental insurance on change of control of the board on April 26, 2022.

### *Government Subsidies*

The Company was not eligible and did not receive any new government subsidies in the quarter ended March 31, 2022 compared to \$4.1 million of subsidies received during the quarter ended March 31, 2021. Upon finalization of 2021 compensation to specified executives, approximately C\$0.5 million (\$0.4 million) of subsidies is expected to be returned to the Canadian authorities in the second quarter of 2022. The amount was fully provided for in the third quarter of 2021 and in the first quarter of 2022 and the Company reversed a \$0.6 million incremental provision related to this that is no longer necessary. The CEWS and CERS programs expired on October 23, 2021.

### *Interest expense*

Interest expense increased by \$0.8 million from \$0.5 million in the quarter ended March 31, 2021 to \$1.3 million in the quarter ended March 31, 2022 as a result of the issuance of C\$70.3 million of the Debentures in 2021 and draws on the Leasing Facilities.

### *Income Tax*

The provision for income taxes is comprised of U.S. and Canadian federal, state and provincial taxes based on pre-tax income. The Company incurred no income tax expense or recovery during the quarter ended March 31, 2022, compared to a \$0.04 million expense for the same period of 2021. As at March 31, 2022 the Company had a valuation allowance of \$22.8 million (December 31, 2021 \$17.3 million) against deferred tax assets due to ongoing near term uncertainties on the business caused by the COVID-19 pandemic and the related decline in business activity which impacted our ability to generate sufficient taxable income in Canada and the United States to fully deduct historical losses. As at March 31, 2022, we had C\$76.3 million of non-capital loss carry-forwards in Canada and \$53 million in the United States. These loss carry-forwards will begin to expire in 2032.

### *Net Loss*

Net loss increased to \$23.0 million or \$0.27 net loss per share in the three months ended March 31, 2022 from a net loss of \$12.5 million or \$0.15 net loss per share for the three months ended March 31, 2021. The increased loss is primarily the result of a \$0.1 million decrease in gross profit, a \$5.6 million increase in operating expenses including \$3.7 million of reorganization expenses and \$1.5 million of incremental professional fees as described previously, a \$0.8 million increase in interest expense, a \$0.6 million increase in foreign exchange loss and a \$3.5 million decrease in government subsidies.

**EBITDA and Adjusted EBITDA for the Three Months Ended March 31, 2022 and 2021**

The following table presents a reconciliation for the first quarter results of 2022 and 2021 of EBITDA and Adjusted EBITDA to our net loss, which is the most directly comparable GAAP measure for the periods presented:

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	(\$ in thousands)	
<b>Net loss for the period</b>	<b>(23,042)</b>	<b>(12,499)</b>
Add back (deduct):		
Interest Expense	1,330	500
Interest Income	(11)	(19)
Income Tax Expense	-	39
Depreciation and Amortization	4,622	3,402
<b>EBITDA</b>	<b>(17,101)</b>	<b>(8,577)</b>
Foreign Exchange Losses	732	180
Stock-Based Compensation	1,302	1,094
Government Subsidies	(575)	(4,068)
Reorganization Expense	3,692	-
<b>Adjusted EBITDA</b>	<b>(11,950)</b>	<b>(11,371)</b>
<b>Net Loss Margin<sup>(1)</sup></b>	<b>(60.2)%</b>	<b>(42.4)%</b>
<b>Adjusted EBITDA Margin</b>	<b>(31.2)%</b>	<b>(38.6)%</b>

(1) Net loss divided by revenue.

For the three months ended March 31, 2022, Adjusted EBITDA and Adjusted EBITDA Margin decreased by \$0.6 million to a \$12.0 million loss or (31.2)% from \$11.4 million loss or (38.6)% in the same period of 2021. This primarily reflects a \$0.4 million decrease in Adjusted Gross Profit, \$1.5 million of incremental professional fees as described previously, \$0.4 million reduction in capitalized costs due to fewer internal projects, \$0.4 million increase in sales travel and entertainment costs and \$0.3 million of higher commission expense due to increased activity, offset by \$1.8 million of costs of underused capacity in the first quarter of 2021 which did not re-occur and lower salaries and benefits costs due to headcount reductions.

**Adjusted Gross Profit and Adjusted Gross Profit Margin for the Three Months Ended March 31, 2022 and 2021**

The following table presents a reconciliation for the three months ended March 31, 2022 and 2021 of Adjusted Gross Profit to our gross profit, which is the most directly comparable GAAP measure for the periods presented:

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	(\$ in thousands)	
<b>Gross profit</b>	<b>3,287</b>	<b>3,370</b>
<b>Gross profit margin</b>	<b>8.6%</b>	<b>11.4%</b>
Add: Depreciation and amortization expense	3,472	2,029
Add: Costs of under-utilized capacity	-	1,756
<b>Adjusted Gross Profit</b>	<b>6,759</b>	<b>7,155</b>
<b>Adjusted Gross Profit Margin</b>	<b>17.7%</b>	<b>24.3%</b>

Gross profit and gross profit margin decreased to \$3.3 million or 8.6% for the three months ended March 31, 2022, from \$3.4 million or 11.4% for the three months ended March 31, 2021. Adjusted Gross Profit and Adjusted Gross Profit Margin decreased to \$6.8 million or 17.7% for the three months ended March 31, 2022, from \$7.2 million or 24.3% for the three months ended March 31, 2021.

The decrease in gross profit margin largely reflects significant inflationary increases in the realized cost of materials, transportation and packaging, partially offset by improved labor utilization and fixed cost leverage on higher revenues. Gross profit decreased as material, transportation and packaging costs increased by approximately 9% as a percentage of revenue, and gross profit was reduced by approximately 1% due to incremental South Carolina Facility

fixed costs. Additional depreciation and amortization due to revision to the useful lives of assets, including the Phoenix Facility, contributed \$1.1 million or 2% of the gross margin. This 12% increased cost impact was offset by 3% of improved labor utilization and fixed cost leverage on account of the \$8.8 million or 30% increase in revenue compared to the same period in 2021.

Like many other industries and as noted above, we experienced a significant increase in the cost of raw materials, transportation and packaging, largely driven by the effects of the pandemic with much of the increases experienced in the second half of 2021. In response, effective November 16, 2021, we increased prices on new orders by approximately 6.5% to effectively offset these cost increases, with the benefits largely expected to be realized in the latter half of 2022. We expect such inflationary pressures to continue into 2022 and accordingly announced a further 5% price increase on February 17, 2022, effective June 1, 2022. We did not realize the full benefit of the initial price increase in the first quarter, and in addition we incurred higher than historical discounts on sales which further compressed our gross profit margin.

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 2021, we experienced the full impact of the slowdown in non-residential construction activity on our business. In anticipation of a recovery in demand for our products and services and to preserve our skilled workforce, we deliberately maintained manufacturing headcount, while implementing selective furlough days, in the first quarter of 2021 despite the shortfall in revenues relative to capacity. As a result, in the first quarter of 2021 we separately classified \$1.8 million as costs related to our under-utilized capacity (1.2% of 2021 first quarter gross profit margin) in cost of sales. For the remaining quarters of 2021 and 2022, we did not have abnormal excess capacity as our workforce was better aligned with current production volumes.

## **Liquidity and Capital Resources**

Cash and cash equivalents at March 31, 2022 totaled \$38.9 million, a decrease of \$21.5 million from December 31, 2021. The decrease in cash primarily reflects the impact of \$19.0 million cash used in operations, capital expenditures of \$1.6 million and scheduled Leasing Facilities repayments of \$0.6 million.

In January 2021, we issued C\$40.3 million of the January Debentures for net proceeds after costs of C\$37.6 million (\$29.5 million). The January Debentures accrue interest at a rate of 6.00% per annum and are convertible into common shares of DIRTT at an exercise price of C\$4.65 per common share, or if not converted will mature and be repayable on the January Debenture Maturity Date. Interest and principal are payable in cash or shares at the option of the Company.

In February 2021, we entered into the RBC Facility, a C\$25.0 million senior secured revolving credit facility with RBC. Under the RBC Facility, the “Borrowing Base” is a maximum of 90% of investment grade or insured accounts receivable plus 85% of eligible accounts receivable plus the lesser of 75% of the book value of eligible inventory and 85% of the net orderly liquidation value of eligible inventory less any reserves for potential prior ranking claims. Available borrowings under the RBC Facility at March 31, 2022 were C\$14.5 million or \$11.6 million.

In December 2021, we issued C\$35.0 million of the December Debentures for net proceeds after costs of C\$32.7 million (\$25.6 million). The December Debentures accrue interest at a rate of 6.25% per annum and are convertible into common shares of DIRTT at an exercise price of C\$4.20 per common share, or if not converted will mature and be repayable on the December Debenture Maturity Date. Interest and principal are payable in cash or shares at the option of the Company.

The Company has a C\$5.0 million Canada Leasing Facility of which C\$3.6 million (\$2.6 million) has been drawn, and a \$14.0 million U.S. Leasing Facility of which \$13.3 million has been drawn with RBC and one of its affiliates. The Leasing Facilities are available for equipment expenditures and certain equipment expenditures already incurred. Subsequent to March 31, 2022, the Company received C\$0.9 million (\$0.7 million) under the Canada Leasing Facility.

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. On February

22, 2022 we announced multiple initiatives to improve liquidity and return to a positive EBITDA position by 2023. These initiatives include the rationalizing of our manufacturing footprint through the closure of the Phoenix Facility, organization-wide restructuring of positions that will contribute to the reduction of fixed expenses and the conversion of certain payroll costs into shares rather than cash. To offset the impacts of continued inflationary pressure on the cost of raw materials and transportation, a price increase of 5% effective June 1, 2022 was announced as well as pricing strategy changes on our Reflect and Inspire lines of glass walls to drive increased sales of these products.

The first quarter of 2022 included the impact of one-time costs associated with our reorganization, and professional fees incurred as described previously. These costs will be largely completed in the second quarter with an additional \$1.3 million of reorganization expenses expected and \$3.1 million for run-off directors and officers insurance purchased by the previous board on the change of control.

While the previously discussed COVID-19 impacts and upstream supply chain issues causing project delays during 2021 resulted in a significant usage of cash reserves, the combination of an improved sales outlook for 2022, our cost optimization activities and our cash reserves and available credit facilities lead us to believe that we have sufficient liquidity for at least the next twelve months.

Should the recovery of the North American construction activities from the pandemic be delayed or a sustained economic depression and its adverse impacts on customer demand occur, this could continue to adversely affect our liquidity. To the extent that existing cash and cash equivalents and increased liquidity from the aforementioned 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 Debentures and 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 cash flow from operations, long-term debt, government subsidies and cash on hand. As at March 31, 2022, we had no amounts outstanding under the RBC Facility, \$13.3 million outstanding under the Leasing Facilities and \$57.7 million of Debentures outstanding.

The following table summarizes our consolidated cash flows for the periods indicated:

	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	(\$ in thousands)	
Net cash flows used in operating activities	(19,042)	(12,094)
Net cash flows used in investing activities	(1,620)	(3,589)
Net cash (used in) provided by financing activities	(827)	29,337
Effect of foreign exchange on cash, cash equivalents and restricted Cash	166	303
<b>Net (decrease) increase in cash, cash equivalents and restricted Cash</b>	<b>(21,323)</b>	<b>13,957</b>
Cash, cash equivalents and restricted cash, beginning of period	63,408	45,846
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>42,085</b>	<b>59,803</b>

#### *Operating Activities*

Net cash flows used in operating activities was \$19.0 million for the first three months of 2022 compared to \$12.1 million in the first three months of 2021. The decrease in cash flows from operations is largely due to reorganization costs of \$3.7 million and a \$2.7 million net increase in operating assets and liabilities. Accounts receivable increased by \$5.0 million as our March revenues were higher than January and February by a corresponding amount while inventory increased by \$3.4 million. As a result of ongoing supply chain issues, the Company increased its inventory to ensure it can meet its end customers' expectations of lead times. Offsetting this increase in operating assets was a \$3.3 million increase in customer deposits and deferred revenue and a \$2.4 million increase in accounts payable and accrued liabilities, both reflecting the increased activity in March 2022. For the quarter ended March 31,

2021 we were eligible for \$4.1 million of government subsidies compared to \$0.6 million in the quarter ended March 31, 2022.

#### *Investing Activities*

We invested \$1.0 million in property, plant and equipment during the three months ended March 31, 2022, compared to \$2.9 million during the three months ended March 31, 2021. This expenditure comprised of \$0.4 million of working capital changes, \$0.3 million of information technology and the continued enhancement of our customer relationship management system and website redesign, \$0.1 million of DXC refreshes and \$0.1 million of manufacturing upgrades. Our 2022 capital expenditure program is comprised of approximately \$2.5 million related to refreshes of DXCs, continued enhancement of our customer relationship management system and website redesign, approximately \$2.5 million on software development and approximately \$2.0 million on manufacturing and other capital upgrades. The decrease is due to reduced spending as the South Carolina Facility and Dallas DXC were completed in 2021. We invested \$0.5 million on capitalized software during the three months ended March 31, 2022, as compared to \$0.7 million in the three months ended March 31, 2021.

#### *Financing Activities*

For the three months ended March 31, 2022, \$0.8 million of cash was used in financing activities comprising mainly of \$0.6 million of scheduled payments under the Leasing Facilities. In the same period last year, we received \$29.5 million of cash from the issuance of the January Debentures and had lower Leasing Facility scheduled payments of \$0.2 million due to a lower outstanding Leasing Facility balance at March 31, 2021.

We currently expect to fund anticipated future investments with available cash, including the proceeds from our issuance of Debentures issued in 2021, and drawings on our Leasing Facilities. Subsequent to March 31, 2022, C\$0.9 million (\$0.7 million) was drawn under the Canada Leasing Facility. We do not expect to make any significant further draws under the 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 deem appropriate. We may also use debt or pursue equity financing depending on the share price at the time, interest rates, and nature of the investment opportunity and economic climate.

#### **Credit Facility**

On February 12, 2021, the Company entered into the RBC Facility. Under the RBC Facility, the Borrowing Base is up to a maximum of 90% of investment grade or insured accounts receivable plus 85% of eligible accounts receivable plus the lesser of 75% of the book value of eligible inventory and 85% of the net orderly liquidation value of eligible inventory less any reserves for potential prior ranking claims. At March 31, 2022, available borrowings are C\$14.5 million (\$11.6 million), of which no amounts have been drawn. Interest is calculated at the Canadian or U.S. prime rate plus 30 basis points or at the Canadian Dollar Offered Rate or LIBOR plus 155 basis points. Under the RBC Facility, if the Aggregate Excess Availability is less than C\$5.0 million, the Company is subject to a FCCR covenant of 1.10:1 on a trailing twelve-month basis. Additionally, if the FCCR has been below 1.10:1 for the three immediately preceding months, the Company is required to maintain a reserve account equal to the aggregate of one year of payments on outstanding loans on the Leasing Facilities. The Company did not meet the three-month FCCR requirement during the first quarter of 2022, which resulted in requiring the restriction of \$3.2 million of cash. Should an event of default occur, or the Aggregate Excess Availability be less than C\$6.25 million for five consecutive business days, the Company would enter a cash dominion period whereby the Company's bank accounts would be blocked by RBC and daily balances will set-off any borrowings and any remaining amounts made available to the Company.

During 2020, the Company entered into the Leasing Facilities, consisting of the C\$5.0 million Canada Leasing Facility and the \$14.0 million U.S. Leasing Facility with RBC, 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 5.59%. The U.S. Leasing Facility is amortized over a six-year term and is extendible at the Company's option for an additional year.

The Company has drawn \$13.3 million of cash consideration under the U.S. Leasing Facility and commenced the lease term in 2020 for the equipment at the South Carolina Facility. The Company has drawn C\$3.6 million (\$2.6

million) of cash consideration under the Canada Leasing Facility and commenced the lease term for the Canadian equipment expenditures during 2020. Subsequent to March 31, 2022, C\$0.9 million (\$0.7 million) was drawn under the Canada Leasing Facility.

We are restricted from paying dividends unless Payment Conditions (as defined in the RBC Facility) are met, including having a net borrowing availability of at least C\$10 million over the proceeding 30-day period, and having a trailing twelve-month fixed charge coverage ratio above 1.10:1 and certain other conditions. The RBC Facility is currently secured by substantially all of our real property located in Canada and the United States.

### **Contractual Obligations**

There have been no material changes in our contractual obligations during the three months ended March 31, 2022, 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. See Note 13, “Commitments” to our interim condensed consolidated financial statements in this Quarterly Report for additional information.

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

There have been no material changes in our significant accounting policies during the three months ended March 31, 2022, 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 5, “Adoption of New and Revised Accounting Standards” to our condensed consolidated interim financial statements appearing in this Quarterly Report, we adopted Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The ASU provides guidance on required disclosures with respect to government assistance in a company’s notes to the annual financial statements. The amendments in the ASU are effective for periods beginning after December 15, 2021. The Company has adopted this standard effective January 1, 2022 and notes there is no impact of this standard on our accounting or disclosures of government assistance.

### **Recent Accounting Pronouncements**

For information regarding recent accounting pronouncements, please refer to Note 5, “Adoption of New and Revised Accounting Standards” to our condensed consolidated interim financial statements appearing and “– Significant Accounting Policies and Estimates” in this Quarterly Report.

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

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 officers and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our principal executive officers and principal financial officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2022. Based upon their evaluation, our principal executive officers 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 March 31, 2022, 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

We are pursuing multiple lawsuits against our former founders, Mogens Smed and Barrie Loberg, their new company Falkbuilt Ltd. (“Falkbuilt”), and other related individual and corporate defendants for violations of fiduciary duties and noncompetition and non-solicitation covenants contained in their executive employment agreements, and the misappropriation of our confidential and proprietary information in violation of numerous Canadian and U.S. state, and federal laws pertaining to the protection of our trade secrets and proprietary information and the prevention of false advertising and deceptive trade practices. Except as described below, there have been no material developments in the legal proceedings previously disclosed in our Annual Report on Form 10-K.

On March 10, 2022, the U.S. District Court for the Northern District of Texas dismissed our complaint by DIRTT Environmental Solutions Inc., a Colorado corporation, against Falkbuilt Inc., a Delaware corporation, under the doctrine of forum non conveniens. We disagree with the decision and have filed a notice of appeal with the Fifth Circuit Court of Appeals.

### 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.

*We are under the leadership of a reconstituted board of directors and new Interim Co-Chief Executive Officers who plan to implement a variety of operational, organizational, cultural and other changes to our business, and we may not be able to achieve some or all of the anticipated benefits of this transformation plan.*

Our board of directors was entirely reconstituted at our annual and special meeting of shareholders held on April 26, 2022 and, following that meeting, Geoffrey D. Krause and Jeffrey A. Calkins were appointed Interim Co-Chief Executive Officers. As a result of these events, during the second quarter of 2022, we expect to record severance payments and other compensation expense associated with the departure of certain of our officers and other employees, and we may incur other similar types of expenses and charges during the second quarter and thereafter related to other employee departures or otherwise associated with implementation of the new board’s plan. In addition, while we believe that the successful implementation of the plan will improve our operational and financial performance, there can be no assurance that we will be able to successfully implement the plan or otherwise realize the anticipated benefits of the plan, and we may encounter short-term disruptions of certain aspects of our business as elements of the plan are implemented.

### 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	<a href="#">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).</a>
3.2	<a href="#">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).</a>
4.1	<a href="#">Base Indenture, dated January 25, 2021, by and among DIRTT Environmental Solutions Ltd., Computershare Trust Company of Canada and Computershare Trust Company, National Association as Trustees (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on January 29, 2021).</a>
4.2	<a href="#">Supplemental Indenture, dated January 25, 2021, by and among the Company, Computershare Trust Company of Canada and Computershare Trust Company, National Association as Trustees (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on January 29, 2021).</a>
4.3	<a href="#">Second Supplemental Indenture, dated December 1, 2021, by and among the Company, Computershare Trust Company of Canada and Computershare Trust Company, National Association as Trustees (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on December 1, 2021).</a>
10.1	<a href="#">Letter Agreement, dated as of January 18, 2022, by and between Todd W. Lillibridge and DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K, File No. 001-39061, filed on February 23, 2022).</a>
10.2*	<a href="#">DIRTT Environmental Solutions Ltd. Employee Share Purchase Plan.</a>
10.3*	<a href="#">Indemnity Agreement, dated April 26, 2022, between the Company and Douglas A. Edwards, together with a schedule identifying other substantially identical agreements between the Company and each of the other persons identified on the schedule.</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32.1**	<a href="#">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.</a>
32.2**	<a href="#">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.</a>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
<u>101.PRE*</u>	<u>Inline XBRL Taxonomy Extension Presentation Linkbase Document</u>
<u>104</u>	<u>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</u>
*	Filed herewith
**	Furnished herewith

**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  
Interim Co-Chief Executive Officer & Chief  
Financial Officer (Duly Authorized Officer and  
Principal Financial Officer)

Date: May 4, 2022

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

**2022 EMPLOYEE SHARE PURCHASE PLAN**

**1. Purpose**

The purpose of the DIRTT Environmental Solutions Ltd. 2022 Employee Share Purchase Plan (the "**Plan**") is to advance the interests of DIRTT Environmental Solutions Ltd. (together with any corporate successor, the "**Corporation**"), and its shareholders by providing Eligible Employees (as defined below) of the Corporation and its Designated Subsidiaries (as defined below) with an opportunity to acquire a proprietary interest in the Corporation by purchasing Shares (as defined below) through payroll deductions. It is the intention of the Corporation and its Designated Subsidiaries that the Plan qualify and operate: (i) with respect to Canadian Participants (as defined below), as an "employee savings or thrift plan" (as defined in Canada Revenue Agency Interpretation Bulletin IT-502, *Employee Benefit Plans and Employee Trusts* [archived], or any successor publication thereto), for the purposes of the Tax Act (as defined below); and (ii) with respect to U.S. Participants (as defined below), as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "**Code**"). Accordingly, provisions of the Plan shall be construed so as to extend and limit participation and operation in a manner consistent with the requirements of an employee savings or thrift plan and Section 423 of the Code, as applicable.

**2. Definitions**

"**Administrator**" has the meaning set forth in Section 3(a).

"**Blackout Period**" means a blackout period contemplated in the Corporation's *Insider Trading and Disclosure Policy*, which, for the sake of clarity, will include both quarterly blackout periods and other blackout periods as determined by the Corporation from time to time.

"**Board**" means the Board of Directors of the Corporation.

"**Canadian Participant**" means an Eligible Employee who is resident in Canada for the purposes of the Tax Act and/or who participates in the Plan by virtue of his or her employment services rendered to the Corporation and its Designated Subsidiaries in Canada. For greater certainty, a Participant may be both a Canadian Participant and a U.S. Participant.

"**Code**" has the meaning set forth in Section 1.

"**Committee**" means the Compensation Committee of the Board, provided, however, to the extent deemed necessary or appropriate, a committee other than the Compensation Committee may be designated by the Board to administer the Plan and such other committee may be vested with any of the powers and responsibilities hereunder and shall be considered the Committee for any and all of such purposes hereunder.

"**Corporation**" has the meaning set forth in Section 1.

"**Compensation**" means, except as otherwise determined by the Administrator on a uniform basis for all Participants and prior to the Offering Period to which such determination applies, the regular base salary or wages paid to an Eligible Employee by reason of his or her employment with the Corporation or a Designated Subsidiary (determined prior to any reduction thereof by operation of a salary reduction election

under a plan described in Section 401(k) of the Code or Section 125 of the Code, if any) during an Offering Period, and shall not include (i) any reimbursements of expenses, (ii) any housing, relocation, automobile, travel or other similar cash allowances, (iii) any overtime payments or shift premiums, (iv) any sign-on bonus, (v) any sales commission payments, (vi) any disability payments, or (vii) any non-cash compensation or equity incentive awards.

**"Designated Subsidiary"** means a Subsidiary that has been designated by the Administrator from time to time, in its sole discretion and subject to such conditions as may be designated by the Corporation, as eligible to participate in the Plan.

**"Eligible Employee"** means, with respect to any Offering Period, an individual who is an employee of the Corporation or a Designated Subsidiary and such individual is also an "employee" of the Corporation or a Designated Subsidiary within the meaning of General Instruction A.1(a) to Form S-8, except that an employee whose customary employment is 20 hours or less per week is not an Eligible Employee. In accordance with Treas. Reg. §1.421-1(h)(2), an employee that is a U.S. Participant will be considered to be employed during military or sick leave or any other *bona fide* leave of absence that does not exceed three months and during any period longer than three months if his or her right to reemployment is guaranteed by statute or contract.

**"End Date"** means the last business day of the applicable Offering Period.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended from time to time, including the guidance, rules, and regulations promulgated thereunder and successor provisions, guidance, rules, and regulations thereto.

**"Fair Market Value"** means, as of any date, the value of a Share determined as follows: (i) the closing price of the Shares on the NASDAQ Global Select Market, in relation to Participants whose Compensation is paid in U.S. dollars or any other foreign currency; (ii) the closing price of the Shares on the Toronto Stock Exchange, in relation to Participants whose Compensation is paid in Canadian dollars; or (iii) if the Shares are not listed on such stock exchanges, the value as is determined solely by the Board, acting in good faith.

**"Insider"** has the meaning given to such term by the rules of the Toronto Stock Exchange.

**"Insider Participation Limit"** has the meaning given to such term in Section 7(d).

**"Offering Date"** means the first business day of an Offering Period.

**"Offering Period"** means an offering to Participants to purchase Shares under the Plan established pursuant to Section 4.

**"Option Price"** means an amount equal to 85% of the volume weighted average price of one Share as reflected on the TSX over the five (5) trading day period ending on the End Date for an Offering Period.

**"Participant"** means an Eligible Employee who elects to participate in one or more Offering Periods under the Plan pursuant to Section 5.

**"Participation Form"** has the meaning set forth in Section 5(a).

**"Plan"** has the meaning set forth in Section 1.

"RRSP" means a trust governed by a registered retirement savings plan established under the Tax Act.

"Securities Act" means the Securities Act of 1933, as amended from time to time, including the guidance, rules, and regulations promulgated thereunder and successor provisions, guidance, rules, and regulations thereto.

"Security-Based Compensation Arrangements" means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism of the Corporation involving the issuance or potential issuance of Shares, including a share purchase from treasury which is financially assisted by the Corporation by way of a loan, guarantee or otherwise, including the Plan.

"Shares" means common shares in the capital of the Corporation, or the kind of shares of equity or other securities into which such Shares may be changed in accordance with Section 12(b).

"Subsidiary" means any body corporate that qualifies as a subsidiary of the Corporation under Section 2(4) of the *Business Corporations Act* (Alberta), provided that, in respect of U.S. Participants, it is a corporation, other than the Corporation, in an unbroken chain of corporations, beginning with the Corporation, and, at the time an option is granted under the Plan, each of the corporations, other than the last corporation in the unbroken chain, owns stock possessing fifty (50) percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Tax Act" means the *Income Tax Act* (Canada) and the regulations thereto, as amended from time to time.

"TFSA" means a trust governed by a tax-free savings account established under the Tax Act.

"Undisclosed Material Information" means any material information, as defined in the Corporation's *Insider Trading and Disclosure Policy* as it may be amended or supplemented from time to time, that has not been publicly disseminated by the Corporation.

"U.S. Participant" means an Eligible Employee who is a resident or citizen of the United States for the purposes of the Code and/or who is subject to taxation under the Code in respect of any option awarded or granted under the Plan. For greater certainty, a Participant may be both a Canadian Participant and a U.S. Participant.

"Withdrawal Notice" has the meaning set forth in Section 10(a).

### **3. Plan Administration**

- (a) **Administration.** The Plan shall be administered by the Committee, or, in the absence of the Committee, the Board itself (such administrator, the "**Administrator**"). Any power of the Committee may also be exercised by the Board. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.
- (b) **Powers and Duties of the Administrator.** Subject to the express provisions of the Plan, the Administrator shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of the Plan, including without limitation:
  - (i) to prescribe, amend and rescind rules and regulations relating to the Plan and to define terms not otherwise defined in the Plan;

- (ii) to determine which persons are eligible to participate in the Plan;
  - (iii) to interpret and construe the Plan and any rules and regulations under the Plan, and to make exceptions to any such provisions if the Administrator, in good faith, determines that it is appropriate to do so;
  - (iv) to decide all questions concerning the Plan and to determine all ambiguities, inconsistencies and omissions in the terms of the Plan;
  - (v) to appoint such agents, counsel, accountants, consultants and other persons as may be required to assist in administering the Plan;
  - (vi) to allocate and delegate its responsibilities under the Plan and to designate other persons to carry out any of its responsibilities under the Plan;
  - (vii) where applicable, determine when an action taken under the Plan becomes administratively practicable;
  - (viii) to prescribe and amend such forms as may be necessary or appropriate for Eligible Employees to make elections under the Plan or to otherwise administer the Plan; and
  - (ix) to do such other acts as it deems necessary or appropriate to administer the Plan in accordance with its terms, or as may be provided for or required by law.
- (c) **Determinations by the Administrator.** All decisions, determinations and interpretations by the Administrator regarding the Plan and any rules and regulations under the Plan shall be final and binding on all Participants, beneficiaries, heirs, assigns or other persons holding or claiming rights under the Plan. The Administrator shall consider such factors as it deems relevant, in its sole and absolute discretion, in making such decisions, determinations and interpretations, including the recommendations or advice of any officer or other employee of the Corporation and such attorneys, consultants and accountants as it may select. Members of the Board and members of the Committee acting in their capacity as Administrator under the Plan shall be fully protected in relying in good faith upon the advice of counsel.
- (d) **No Liability.** The Administrator and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or employee of the Corporation or any Subsidiary or other affiliate of the Corporation, the Corporation's legal counsel, independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Administrator and any officer or employee of the Corporation or any Subsidiary or other affiliate of the Corporation acting at the direction or on behalf of the Administrator shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the fullest extent permitted by law, be indemnified and held harmless by the Corporation with respect to any such action or determination.
- (e) **Rules for Foreign Jurisdictions.** The Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures

regarding handling of payroll deductions, payment of interest, conversion of local currency, payroll tax, withholding procedures and handling of share certificates. The Administrator may also adopt sub-plans applicable to particular Designated Subsidiaries or locations, and, with respect to Subsidiaries outside the United States, determine that a sub-plan shall not be considered to be part of an "employee stock purchase plan" under Section 423 of the Code.

- (f) **Currency.** If, in connection with the administration of the Plan including in determining the Fair Market Value, an amount needs to be converted from U.S. dollars to Canadian dollars or vice versa, such amount will be converted using the applicable exchange rate posted for such day by the Bank of Canada, or, for Participants other than Canadian Participants, such other source determined by the Administrator. The Administrator shall also interpret or convert references to "dollar," "price," "value" or other similar terms herein in a manner that will be applicable to the Eligible Employee or jurisdiction in question.

#### **4. Offering Periods**

- (a) Shares shall be offered for purchase under the Plan through a series of successive Offering Periods until the earlier of (i) the maximum number of Shares available for delivery under the Plan, as described in Section 12 below, have been purchased, and (ii) the termination of the Plan.
- (b) Unless otherwise determined by the Administrator before the beginning of the applicable Offering Period, Offering Periods shall be of a duration of three (3) months; provided that in no event shall an Offering Period exceed twelve (12) months in duration.

#### **5. Participation in Offering Periods**

- (a) Subject to the provisions of Section 6, an Eligible Employee may elect to participate in an Offering Period under the Plan by completing a form authorizing payroll deductions, in the form provided by the Corporation or caused to be provided by the Corporation (such as through a third-party service provider designated by the Administrator) (the "**Participation Form**"), and filing such Participation Form with the Corporation during the enrollment period established by the Administrator prior to the beginning of the Offering Period and in accordance with the instructions in such Participation Form. The Participation Form will become effective on the first Offering Date to occur after such form is properly filed with the Corporation.
- (b) Subject to the provisions of Section 6, payroll deductions for a Participant shall begin with the first payroll date after the Offering Date as of which the Participant's Participation Form has become effective and shall continue until the Plan is terminated, subject to the Participant's withdrawal or termination of employment as provided in Section 10.

#### **6. Payroll Deductions**

- (a) By completing and filing a Participation Form in accordance with the instructions in such Participation Form, an Eligible Employee shall elect to have payroll deductions withheld from his or her Compensation on each payroll date during the time he or she is a Participant in the Plan in amounts equal to or greater than one percent (1%), but not exceeding ten percent (10%), of the Compensation which the Participant receives on each such payroll

date during the Offering Period, subject to the provisions set forth in Section 7. Such payroll deductions shall be in whole percentages only. Pursuant to the Participation Form, the Participant shall direct the Corporation or Designated Subsidiary, as applicable, to contribute such withheld amounts to the Plan as described in this Section 6.

- (b) All payroll deductions authorized by a Participant shall be withheld by the Corporation or Designated Subsidiary, as applicable, net of any applicable withholding tax or other source deductions, and credited to a notional account established under the Plan for the Participant. The funds represented by such notional accounts shall be held as part of the Corporation's or Designated Subsidiary's general assets, and neither the Corporation nor any Designated Subsidiary shall be obligated to segregate such funds, but all such funds shall be held pursuant to the Plan on behalf of and for the notional accounts of each individual Participant and such Participant shall be the beneficial owner of funds until such time as the funds are used to purchase Shares in accordance with the Plan. Aside from the contributions made by a Participant through his or her payroll deductions, a Participant shall not make any separate cash payment or contribution to such notional account or to the Plan.
- (c) Subject to Section 6(e), Section 10 and Section 13, a Participant may increase or decrease the amount of his or her payroll deductions under the Plan for subsequent Offering Periods by completing an amended Participation Form and filing it with the Corporation within the time period specified by the Administrator and in accordance with the instructions in such Participation Form.
- (d) Subject to Section 6(e), a Participant may discontinue his or her participation in the Plan at any time as provided in Section 10.
- (e) Notwithstanding anything in this Plan to the contrary, no Eligible Employee or Participant is permitted to submit to the Corporation a Participation Form, amended Participation Form or Withdrawal Notice (i) without confirming to the Corporation in a form satisfactory to the Administrator that such Eligible Employee or Participant is not in possession of any Undisclosed Material Information at such time, or (ii) during a Blackout Period, if the Eligible Employee or Participant is subject to the Corporation's *Insider Trading and Disclosure Policy*.

## **7. Grant and Exercise of Option**

- (a) On each Offering Date, a Participant shall be granted, by operation of the Plan, an option to purchase a number of Shares at the Option Price, determined in accordance with Section 7(b), subject to the limitations set forth in Section 7(c). Notwithstanding any other provision of the Plan, no Participant shall be granted an option under the Plan for any Offering Period if:
  - (i) immediately after the grant, the Participant (or any other person whose stock ownership would be attributed to such Participant pursuant to Section 424(d) of the Code) would own shares (including any shares that the Participant may purchase under outstanding options) possessing 5% or more of the total combined voting power or value of all classes of shares of the Corporation or of any Subsidiary; or

- (ii) the Participant's rights to purchase Shares under all "employee stock purchase plans" (within the meaning of Section 423 of the Code) of the Corporation and its Subsidiaries would accrue at a rate which exceeds US \$25,000 of the Fair Market Value of such Shares (determined at the time the option is granted) for each calendar year in which the option is outstanding at any time.
- (b) Unless a Participant withdraws from the Plan pursuant to Section 10 or incurs a termination of employment, the Participant's option for an Offering Period shall be automatically exercised on the End Date of such Offering Period to purchase such whole number of Shares determined by dividing the accumulated payroll deductions in the Participant's notional account on such End Date by the Option Price, subject to the limitations set forth in Section 7(c). No fractional Shares will be purchased and any accumulated payroll deductions not used to purchase Shares shall be refunded (without interest) to the Participant; *provided, however*, that the Administrator may determine in its discretion that an amount representing a fractional share that was not used to purchase Shares during an Offering Period may be carried over to a subsequent Offering Period.
- (c) Notwithstanding anything in this Plan to the contrary, the number of Shares that a Participant may purchase during an Offering Period shall not exceed the maximum number of Shares that may be purchased without exceeding the limitation described in Section 7(a)(ii).
- (d) During any sixth-month period, the aggregate number of Shares issued to Insiders under the Plan and any private placement shall not exceed ten percent (10%) of the Shares outstanding (on a non-diluted basis) prior to the date of the first issuance of the Shares under the Plan and any private placement to Insiders during such six-month period. The restriction referred to in this Section 7(d) are referred to as the "**Insider Participation Limit**".

## **8. Delivery of Shares**

As soon as administratively practicable after the End Date of each Offering Period, the Corporation will deposit or deliver, or cause to be deposited or delivered, the Shares purchased by each Participant upon exercise of the Participant's option for such Offering Period in an account established for the Participant (or, if applicable, the Participant's RRSP or TFSA) at a brokerage firm or other financial services firm selected by the Administrator, to be held in book entry form. Any Shares acquired with a Participant's contributions under the Plan shall be immediately vested in and become the property of such Participant.

## **9. No Shareholder Rights**

No Participant (or other person claiming through such Participant) shall, solely by reason of the Plan or any rights granted pursuant thereto, or by the fact that there are payroll deductions credited to a Participant's notional account sufficient to purchase Shares, have any rights of a shareholder of the Corporation (including without limitation any right to receive dividends or other distributions paid with respect to Shares) unless and until Shares have been deposited or delivered to such Participant in the manner provided in Section 8.

## **10. Withdrawal; Termination of Employment**

- (a) Subject to Section 6(e), a Participant may terminate his or her participation in the Plan at any time by giving written notice to the Corporation ("**Withdrawal Notice**") within the

time period specified by the Administrator. The Withdrawal Notice shall state that the Participant wishes to terminate his or her participation in the Plan, specify the applicable End Date and request the cessation of further payroll deductions under the Plan. As soon as administratively practicable, payroll deductions will cease for the Participant's purchase of Shares for such Offering Period and for any subsequent Offering Period and any accumulated payroll deductions shall be refunded to the Participant (without interest) as soon as administratively practicable following the Administrator's receipt of the Withdrawal Notice. A Participant's withdrawal from the Plan pursuant to this Section shall not have any effect upon his or her eligibility to participate in a subsequent Offering Period by completing and filing a new Participation Form pursuant to Section 5, or in any similar plan that may hereafter be adopted by the Corporation.

- (b) If a Participant ceases to be employed by the Corporation or by a Designated Subsidiary for any reason, all payroll deductions and all rights to purchase Shares granted to the Participant with respect to the Offering Period then in effect shall immediately cease, unless otherwise determined by the Administrator in its sole discretion in compliance with Treas. Reg. §1.423-2(f). The amount of payroll deductions accumulated in such Participant's notional account shall be refunded (without interest) to the Participant as soon as administratively practicable (or in the case of the Participant's death, to the executor or administrator of the Participant's estate, or if no such executor or administrator has been appointed, to such other representative of the Participant as the Administrator may determine). For purposes of the Plan, the date of the Participant's termination of employment shall be the Participant's last date of actual employment and shall not include any period during which such Participant receives any severance payments or any other post-termination payments or benefits. A transfer of employment between the Corporation and a Designated Subsidiary or between one Designated Subsidiary and another Designated Subsidiary, or an absence or leave described in the definition of "Eligible Employee" in Section 2 of this Plan, shall not be deemed a termination of employment under this Section. A Participant who is on military leave, sick leave or other *bona fide* leave of absence that lasts longer than three months without a right to return to active employment will be treated for purposes of this Section as if such Participant ceased to be employed by the Corporation or a Designated Subsidiary as of the date immediately following the end of such three-month period.

## **11. Interest**

No interest or other compensation shall accrue on a Participant's payroll deductions under the Plan and any amounts refunded to a Participant shall be refunded without interest or other compensation.

## **12. Shares Subject to the Plan**

- (a) Subject to Section 12(b), the maximum number of Shares which may be delivered to Participants under the Plan is equal to 5,500,000 Shares. If, on any End Date, the total number of Shares that are subject to options granted for the applicable Offering Period exceeds the number of Shares then available for delivery under the Plan, the Corporation shall make a *pro rata* allocation of the Shares remaining available for delivery under the Plan in a uniform and equitable manner, as determined by the Administrator. In the event the Corporation makes a *pro rata* allocation of the Shares remaining available for delivery under the Plan, the Corporation shall give written notice of such reduction of the number of Shares subject to the option to each affected Participant and shall refund (without

interest) any excess funds accumulated in each Participant's notional account as soon as administratively practicable after the End Date of such Offering Period.

- (b) The number of Shares available for delivery under the Plan, the maximum number of Shares each Participant may purchase per Offering Period, as well as the Option Price and the number of Shares covered by each option granted under the Plan which has not yet been exercised shall be equitably adjusted by the Administrator to reflect any reorganization, reclassification, combination of shares, share split, reverse share split, spin-off, dividend or distribution of securities, property or cash (other than regular, periodic cash dividends), or any other similar event or transaction that affects the number or kind of Shares outstanding. Such adjustment shall be made by the Administrator, whose determination shall be final, binding and conclusive. The Administrator shall have the authority to adjust not only the number of securities, but also the class and kind of securities subject to the Plan and to make appropriate adjustments in the price of such securities if other than Shares of the Corporation, so long as any such action complies with applicable law.
- (c) The Shares delivered to Participants under the Plan may consist, in whole or in part, of Shares issued by the Corporation from treasury, or purchased on the open market on behalf of the applicable Participant, such determination to be made by the Corporation in its sole discretion. Where Shares are acquired on the open market, the Corporation shall be responsible for funding, from its own funds, the difference between the acquisition cost of such Shares (including any brokerage fees or other charges and expenses related to the acquisition of such Shares) and the Option Price payable from the Participant's contributions. For greater certainty, (i) no Participant shall have any right to demand that the Corporation issue from treasury Shares to the Participant, and (ii) notwithstanding any election by the Corporation to deliver previously unissued Shares to a Participant, the Corporation reserves the right to change its election in respect thereof at any time until payment is actually made.

### **13. Corporate Transactions**

- (a) In the event of the proposed liquidation or dissolution of the Corporation, the Administrator shall, in its discretion, provide for one of the following courses of action: (i) the Offering Period then in effect shall end as of a date selected by the Administrator before the consummation of such liquidation or dissolution of the Corporation, and each outstanding option granted under the Plan shall be automatically exercised as of such date, or (ii) the Offering Period then in effect shall be terminated as of a date selected by the Administrator before the consummation of such liquidation or dissolution of the Corporation, and each outstanding option granted under the Plan shall be automatically cancelled and any payroll deductions accumulated for such Offering Period shall be refunded (without interest) to the applicable Participant as soon as administratively practicable.
- (b) In the event of a proposed sale of all or substantially all of the assets of the Corporation, or the merger or consolidation of the Corporation (except for (x) a transaction the principal purpose of which is to change the jurisdiction in which the Corporation is incorporated or (y) a transaction where the acquiring or surviving company is directly or indirectly owned, immediately after such transaction, by the shareholders of the Corporation in substantially the same proportion as their ownership of Shares in the Corporation immediately before such transaction), the Administrator shall, in its discretion, provide for one of the following courses of action: (i) each outstanding option granted under the Plan shall be assumed or

an equivalent option shall be substituted by the successor entity (or a parent or subsidiary thereof), (ii) the Offering Period then in effect shall end as of a date selected by the Administrator before the consummation of such sale, merger or consolidation of the Corporation, and each outstanding option granted under the Plan shall be automatically exercised as of such date, or (iii) the Offering Period then in effect shall be terminated as of a date selected by the Administrator before the consummation of such sale, merger or consolidation of the Corporation, and each outstanding option granted under the Plan shall be automatically cancelled and any payroll deductions accumulated for such Offering Period shall be refunded (without interest) to the applicable Participant as soon as administratively practicable.

#### **14. Transferability**

Neither payroll deductions credited to a Participant's notional account nor any rights relating to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will or the laws of descent and distribution in accordance with Section 10(b)) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Corporation may treat such act as an election to withdraw in accordance with Section 10(a). During the Participant's lifetime, a Participant's option to purchase Shares under the Plan is exercisable only by the Participant.

#### **15. Restrictions on Issuance and Transfer of Shares**

- (a) The issuance or delivery of Shares under the Plan shall be subject to compliance with all requirements of applicable federal, state, provincial, territorial, local or foreign securities laws, and the rules of the Toronto Stock Exchange or the NASDAQ Global Select Market as then in effect. An option granted for an Offering Period shall not be exercised, and any purported exercise shall be and shall be deemed to be null and void, if the issuance or delivery of Shares upon such exercise would constitute a violation of any applicable federal, state, provincial, territorial, local or foreign securities laws or other laws or regulations or the rules of the Toronto Stock Exchange or the NASDAQ Global Select Market as then in effect. In addition, no option granted for an Offering Period may be exercised unless (i) a registration statement under the Securities Act is, at the time of exercise, in effect with respect to the Shares issuable or deliverable upon exercise of the option, or (ii) in the opinion of the legal counsel of the Corporation, the Shares issuable or deliverable upon exercise of the option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act or applicable securities laws in Canada. As a condition to the exercise of an option granted for an Offering Period, the Administrator may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or stock exchange rule, and to make any representation or warranty with respect thereto as may be requested by the Administrator. If at or before the time of the exercise of an option granted for an Offering Period, the Administrator determines that the issuance or delivery of Shares pursuant to such exercise would not comply with applicable federal, state, provincial, territorial, local or foreign securities laws or the rules of the Toronto Stock Exchange or the NASDAQ Global Select Market as then in effect, all payroll deductions accumulated for such Offering Period shall be refunded (without interest) to the Participant as soon as administratively practicable.
- (b) All Shares issued under this Plan will be subject to any stop transfer orders and other restrictions as the Administrator may deem advisable under the Plan or the rules,

regulations and other requirements of Canadian securities regulators, the U.S. Securities and Exchange Commission, the Toronto Stock Exchange, the NASDAQ Global Select Market and any applicable federal, state, provincial, territorial, local or foreign securities laws, and the Administrator may cause a notation to the same restrictive effect on the transfer agent's books in connection with such Shares or legends in connection with any certificates or other form of ownership representing any such Shares.

- (c) Notwithstanding any other provision of the Plan to the contrary, to the extent that any Participant is subject to the provisions of Section 16 of the Exchange Act, and the rules and regulations promulgated thereunder, such Participant's participation in the Plan shall be subject to, and such Participant shall be required to comply with, any and all additional restrictions and/or requirements imposed by the Administrator, in its sole discretion, in order to ensure that the exemption made available pursuant to Rule 16b-3 promulgated pursuant to the Exchange Act is available with respect to all transactions pursuant to the Plan effected by or on behalf of any such Participant.

## **16. Amendment or Termination**

The Plan may be amended or terminated at any time and for any reason by the Committee or the Board; *provided* that, no amendment of the Plan may, without the consent of each Participant holding an outstanding option under the Plan, materially and adversely affect such Participant's rights under the Plan; *provided, further* that, upon termination of the Plan by the Board, any accumulated payroll deductions shall be refunded (without interest) to Participants as soon as administratively practicable thereafter. Notwithstanding the foregoing, no amendment adopted by the Committee or the Board shall be effective without the approval of the shareholders of the Corporation if shareholder approval of the amendment is then required under Section 423 of the Code or any rule or regulation of NASDAQ Global Select Market or the Toronto Stock Exchange and provided further that, without approval of the Corporation's shareholders, no amendment or modification of the Plan may:

- (a) increase the limits imposed in Section 12(a) on the maximum number of Shares which may be issued under the Plan;
- (b) remove or exceed the Insider Participation Limit; or
- (c) lower the purchase price payable for Shares under the Plan.

## **17. Notices**

Except as otherwise provided herein, any notice or other communication given pursuant to the Plan shall be in writing and shall be personally delivered or mailed by United States registered, certified or overnight mail, postage prepaid, return receipt requested, to the Corporation at its principal place of business or to the Participant at the address on the payroll records of the Corporation or, in either case, at such other address as one party may subsequently furnish to the other party in writing. Additionally, if such notice or communication is by the Corporation to the Participant, the Corporation may provide such notice electronically (including via email). Any such notice shall be deemed to have been given on the date of postmark, in the case of notice by mail, or on the date of delivery, if delivered in person or electronically.

## **18. Miscellaneous**

- (a) **Effective Date.** The Plan is effective as of the date it is approved by the Corporation's shareholders.

- (b) **Governing Law.** The Plan shall be governed by and construed in accordance with the laws of the province of Alberta, and the federal laws of Canada applicable therein, except with respect to those provisions of the Plan concerning the Code, which shall be governed by and construed in accordance with the laws of the State of Delaware, without resort to that state's conflicts of laws rules, except as superseded by applicable United States federal law.
- (c) **Taxes of a Canadian Participant.** Any income taxes, withholding taxes or other levies on income of a Canadian Participant applied by any governmental authority arising from the Plan or the Canadian Participant's participation therein shall be the responsibility of such Canadian Participant, including, without limitation, any taxes payable on:
- (i) the amount of a contribution made by way of payroll deduction;
  - (ii) the benefit derived from acquiring Shares at an Option Price which is less than the Fair Market Value of a Share;
  - (iii) the transfer of Shares to the Canadian Participant or a person designated by the Participant, including a sale, a transfer to an RRSP or TFSA, or other disposition of the Shares; and
  - (iv) any dividends received by a Participant on Shares.
- (d) **Taxes of a U.S. Participant.** Any taxes on income of a U.S. Participant applied by any governmental authority arising from the Plan or the U.S. Participant's participation therein, including taxes which result from a disposition of Shares acquired under the Plan's terms, shall be the responsibility of such U.S. Participant.
- (e) **Withholding.** To the extent required by applicable federal, state, provincial, territorial, local or foreign law, the Administrator may and/or a Participant shall make arrangements satisfactory to the Corporation or applicable Designated Subsidiary for the satisfaction of any withholding tax obligations that arise with respect to any payroll deduction, option granted under the Plan, or the issuance or delivery or sale of any Shares. The Corporation shall not be required to recognize any Participant rights under an option granted under the Plan, to issue Shares or to recognize the disposition of such Shares until such obligations, if any, are satisfied. To the extent permitted or required by the Administrator, these obligations may or shall be satisfied by the Corporation withholding cash from any compensation otherwise payable to or for the benefit of a Participant, the Corporation withholding a portion of the Shares that otherwise would be issued to a Participant upon exercise of an option granted under the Plan or by the Participant tendering to the Corporation cash or, if allowed by the Administrator, Shares. All such withheld amounts shall be remitted to the appropriate government authority in accordance with the applicable federal, state, provincial, territorial, local, foreign or other applicable legislation.
- (f) **No Liability.** Participation in this Plan by a Participant is voluntary. The value of Shares acquired by a Participant pursuant to the Plan is not guaranteed. Neither the Corporation nor any Designated Subsidiary shall be liable to any Participant for any loss resulting from a decline in the market value of any Shares. Each Participant agrees to accept all risks associated with the holding of Shares. Neither the Corporation nor any Designated Subsidiary makes any representations as to the tax treatment or tax impact of participating in this Plan and is not liable for maintaining or avoiding any particular tax treatment for any Eligible Employee.

- (g) **Rules of Construction.** Whenever used in the Plan, unless the context clearly indicates to the contrary, (i) any references to paragraphs, subparagraphs, sections or subsections are to those parts of the Plan, (ii) the plural includes the singular and the singular includes the plural; (iii) "includes" and "including" are each "without limitation"; (iv) "herein," "hereof," "hereunder" and other similar compounds of the word "here" refer to the entire Plan and not to any particular paragraph, subparagraph, section or subsection; (v) all pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the entities or persons referred to may require; (vi) references to a statute or regulation or statutory or regulatory provision shall refer to that provision (or to a successor provision of similar import) as currently in effect, as amended, or as reenacted, and to any regulations and other formal guidance of general applicability issued thereunder; and (vii) references to a law shall include any statute, regulation, rule, court case, or other requirement established by an exchange or a governmental authority or agency, and applicable law shall include any tax law that imposes requirements in order to avoid adverse tax consequences.
- (h) **Headings and Captions.** Headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Those headings will not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision of the Plan.
- (i) **No Right to Employment.** The Plan does not constitute a contract of employment, and participation in the Plan does not give any Eligible Employee or Participant the right to be retained in the employ of the Corporation, a Designated Subsidiary or any other subsidiary of the Corporation, nor give any person a right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan.
- (j) **Collection of Personal Information.** Each Participant shall provide the Corporation and the Administrator with all information they require in order to administer the Plan. The Corporation, any Designated Subsidiary, and the Administrator may from time to time transfer or provide access to such information to a third party service provider for purposes of the administration of the Plan provided that such service providers will be provided with such information for the sole purpose of providing such services to the Corporation. By participating in the Plan, each Participant acknowledges that information may be so provided and agrees to its provision on the terms set forth herein. Except as specifically contemplated in this Section 18(j), neither the Corporation, any Designated Subsidiary, nor the Administrator shall disclose the personal information of a Participant except: (i) in response to regulatory filings or other requirements for the information by a governmental authority with jurisdiction over the Corporation or the Designated Subsidiary; (ii) for the purpose of complying with a subpoena, warrant or other order by a court, Person, or body having jurisdiction to compel production of the information; or (iii) as otherwise required by law. In addition, personal information of Participants may be disclosed or transferred to another party during the course of, or completion of, a change in ownership of, or the grant of a security interest in, all or a part of the Corporation or its affiliates including through an asset or share sale, or some other form of business combination, merger, or joint venture, provided that such party is bound by appropriate agreements or obligations.
- (k) **Severability.** If any provision of this Plan is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or option or rights granted or created hereunder under any law deemed applicable by the Administrator, that provision will be construed or deemed amended to conform to applicable laws, or if it cannot be

construed or deemed amended without, in the determination of the Administrator, materially altering the intent of the Plan, that provision will be stricken as to that jurisdiction, person, option or rights and the remainder of the Plan and any such other options or rights will remain in full force and effect.

- (1) **Unfunded Status of Plan.** The Plan is unfunded and shall not create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Corporation, any Designated Subsidiary, or the Administrator and a Participant or any other person.

**Exhibit 10.3**

## **INDEMNITY AGREEMENT**

**THIS INDEMNITY AGREEMENT** is made as of this 26<sup>th</sup> day of April, 2022

**BETWEEN:**

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**, a corporation governed by the laws of the Province of Alberta (the “**Corporation**”)

-and-

**Douglas A. Edwards**, an individual residing in Louisville, Kentucky (the “**Indemnified Party**”)

**RECITALS:**

- A. The Indemnified Party serves as a director and/or officer of the Corporation or the Indemnified Party is a former director or officer of the Corporation or acts or has acted at the Corporation’s request as a director, officer or similar capacity of any subsidiary or affiliate of the Corporation or any entity of which the Corporation is or was a shareholder, partner, member or creditor (each an “**Entity**”);
- B. The Corporation considers it desirable and in the best interests of the Corporation to enter into this Agreement to set out the circumstances and manner in which the Indemnified Party may be indemnified in respect of certain liabilities and expenses which the Indemnified Party may incur as a result of acting or having acted as a director or officer of the Corporation or, at the Corporation’s request, as a director, officer or similar capacity of an Entity; and
- C. The by-laws of the Corporation contemplate that the Indemnified Party may be indemnified in certain circumstances.

**NOW THEREFORE, IN CONSIDERATION OF** the promises and mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the Indemnified Party acting as a director or officer of the Corporation or, at the Corporation’s request, as a director, officer or similar capacity of an Entity, the Corporation and the Indemnified Party do hereby covenant and agree as follows:

### **ARTICLE 1**

#### **DEFINITIONS AND PRINCIPLES OF INTERPRETATION**

## 1.1 Definitions

Whenever used in this Agreement, the following words and terms shall have the meanings set out below:

- (a) “**Act**” means the *Business Corporations Act* (Alberta) as of the date hereof, provided that if the Act is amended after the date hereof in a manner which permits the Corporation to provide broader rights of indemnification than are permitted on the date hereof, this Agreement shall be construed so as to give effect to such broader rights;

- (b) **“Agreement”** means this indemnity agreement and all amendments or restatements as permitted under this Agreement, and references to **“Article”** or **“Section”** mean the specified Article or Section of this Agreement, and **“paragraph”** means the specified paragraph of this Agreement;
- (c) **“Claims”** means any claim, demand, suit, action, cause of action, proceeding, inquiry, arbitration, mediation, alternative dispute resolution mechanism, hearing, discovery or investigation of whatever nature, whether anticipated, threatened, pending, commenced, continuing or completed of whatever kind including any civil, criminal, administrative, arbitrative, regulatory, investigative (formal or informal) or other claim of any nature whatsoever; any appeal in or related to any such claim, demand, suit, action, cause of action, proceeding, inquiry, arbitration, mediation, alternative dispute resolution mechanism, hearing, discovery or investigation; and any inquiry or investigation (including discovery) whether conducted by or in the right of the Corporation or any other person that the Indemnified Party in good faith believes could lead to any such claim, demand, suit, action, cause of action, proceeding, inquiry, arbitration, mediation, alternative dispute resolution mechanism, hearing, discovery or investigation or appeal thereof;
- (d) **“Court”** means the Court of Queen’s Bench of Alberta (Judicial District of Calgary), including any appeal courts arising therefrom;
- (e) **“ERISA”** means the United States Employee Retirement Income Security Act of 1974, as amended;
- (f) **“Exchange Act”** means the United States Securities Exchange Act of 1934, as amended;
- (g) **“Expenses”** means all legal fees and disbursements, retainers, accountant’s fees and disbursements, private investigator fees and disbursements, other professionals’ fees and disbursements, court costs, transcript costs, fees and expenses of experts, witness fees and expenses, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, penalties, and all other disbursements, costs or expenses of the types customarily incurred in connection with prosecuting, defending (including affirmative defences and counterclaims), preparing to prosecute or defend, investigating, being or preparing to be a witness in, or participating in or preparing to participate in a Claim and all interest or finance charges attributable to any thereof. Without limiting the foregoing, “Expenses” also shall include Expenses incurred in connection with any appeal resulting from any Claim, including the principal, premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Should any payments by the Corporation under this Agreement be determined to be subject to any national, provincial, federal, state or local income or excise tax, “Expenses” shall also include such amounts as are necessary to place the Indemnified Party in the same after-tax position (after giving effect to all applicable taxes) as the Indemnified Party would have been in had no such tax been determined to apply to such payments. Also, in this Agreement “witness” includes responding (or objecting) to a discovery or similar request, whether in writing or in an oral deposition, in any Claim.
- (h) **“Losses”** means any and all amounts related to all costs, charges and Expenses reasonably incurred by the Indemnified Party, which shall include all losses, damages (including

incidental and consequential damages), fees (including any legal, professional or advisory fees, retainers, charges or disbursements and including costs of services of any experts), claims, awards, statutory obligations, amounts paid to settle or dispose of any Claim or satisfy any judgment, fines, penalties or liabilities (including all interest, assessments and other charges paid or payable in connection with or in respect of such losses, damages, fees, claims, awards, statutory obligations, amounts paid to settle or dispose of any Claim or satisfy any judgment, fines, penalties or liabilities), without limitation, and whether incurred alone or jointly with others, including any amounts which the Indemnified Party may reasonably suffer, sustain, incur or be required to pay in respect of the investigation, defence, settlement or appeal of or preparation for any Claim or with any action to establish a right to indemnification under this Agreement, and for greater certainty, includes all Taxes, interest, penalties and related outlays of the Indemnified Party arising from any indemnification of the Indemnified Party by the Corporation pursuant to this Agreement;

- (i) “**Parties**” means the Corporation and the Indemnified Party collectively and “**Party**” means any one of them;
- (j) “**Policy**” means the directors’ and officers’ errors and omissions insurance policy of the Corporation; and
- (k) “**Taxes**” includes any assessment, reassessment, claim or other amount for taxes, charges, duties, levies, imposts, ERISA excise taxes or penalties, or similar amounts, including any interest and penalties in respect thereof.

## 1.2 Certain Rules of Interpretation

In this Agreement:

- (a) **Governing Law** – This Agreement is a contract made under and shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable in the Province of Alberta. The Parties hereby irrevocably submit and attorn to the exclusive jurisdiction of the Court with respect to all matters arising out of or relating to this Agreement and all matters, agreements or documents contemplated by this Agreement. The Parties hereby waive any objections they may have to the venue being in such Court, including any claim that any such venue is in an inconvenient forum. For greater certainty, all references to “applicable law” in this Agreement shall refer to the laws of the Province of Alberta and the federal laws of Canada applicable in the Province of Alberta.
- (b) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- (c) **Number and Inclusion** – Unless the context otherwise requires, words importing the singular include the plural and vice versa. Whenever the words “include,” “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation.”
- (d) **Severability** – If, in any jurisdiction, any provision of this Agreement or its application to any Party or circumstance is restricted, prohibited or unenforceable, such provision shall,

as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other Parties or circumstances.

- (e) **Entire Agreement** – This Agreement constitutes the entire agreement between the Parties and sets out all the covenants, promises, warranties, representations, conditions, understandings and agreements between the Parties pertaining to the subject matter of this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, oral or written. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, oral or written, between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement, including Section 2.8.

## **ARTICLE 2 OBLIGATIONS**

### **2.1 Obligations of the Corporation**

- (a) **General Indemnity** – The Corporation will, to the fullest extent permitted by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, including to the extent permitted under the Act, exonerate, indemnify and hold the Indemnified Party and the Indemnified Party’s respective heirs, executors, administrators and other legal representatives of the Indemnified Party (each of which is included in any reference hereinafter made to the Indemnified Party) harmless from and against, and will pay to the Indemnified Party, any and all Losses which the Indemnified Party may suffer, sustain, incur or be required to pay in respect of any Claim to which a director or officer is made a party by reason of being a director or officer of the Corporation or director, officer or in similar capacity of an Entity at the Corporation’s request.
- (b) **Conditions** – The indemnity provided for in Section 2.1(a) will only be available if the Indemnified Party:
  - (i) acted honestly and in good faith with a view to the best interest of the Corporation or as the case may be, to the best interest of an Entity for which the Indemnified Party acted as a director, officer or in a similar capacity at the Corporation’s request; and
  - (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing the Indemnified Party’s conduct was lawful.

The Indemnified Party shall be presumed to have fulfilled the foregoing conditions unless it is determined by the Court that the Indemnified Party has not (and the burden of proof shall be on the Corporation to rebut such presumption).

- (c) **Derivative Claims** – The Corporation shall to the fullest extent permitted by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, provided the Indemnified Party fulfills the conditions in Section 2.1(b), with the approval of the Court if such approval is required exonerate, indemnify and hold the

Indemnified Party harmless, and advance moneys under Section 2.1(k) to the Indemnified Party, in respect of a Claim by or on behalf of the Corporation or other entity to procure a judgment in the Corporation's favour to which the Indemnified Party is made a party by reason of being or having been a director or officer of the Corporation or director, officer or in similar capacity of an Entity at the Corporation's request. The Corporation will advance or reimburse, as applicable, all Losses incurred by the Indemnified Party in connection with the Indemnified Party's participation in such Claim as provided in this Section 2.1(c). The Corporation shall pay to the Indemnified Party, if applicable, a reasonable *per diem* amount for time spent in connection with a Claim under this Section 2.1(c) as provided in Section 2.1(l).

- (d) **Indemnity as of Right** – Notwithstanding anything in this Agreement, provided the Indemnified Party fulfills the conditions in Section 2.1(b), the Corporation shall be required to indemnify the Indemnified Party in respect of all Losses incurred by the Indemnified Party in respect of any Claim to which the Indemnified Party is made a party by reason of being or having been a director or officer of the Corporation or director, officer or in similar capacity of an Entity at the Corporation's request, if after the final disposition of such Claim, the Indemnified Party has not been reimbursed for those Losses.
- (e) **Incidental and Additional Expenses** – The Corporation shall to the fullest extent permitted by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit pay or reimburse the Indemnified Party for (i) the Indemnified Party's reasonable and necessary travel, lodging or accommodation costs, charges or expenses paid or incurred by or on behalf of the Indemnified Party in connection with a Claim where such Claim is subject to indemnification hereunder; (ii) the Indemnified Party's reasonable fees and Expenses incurred in connection with efforts to recover under any directors and officers liability insurance policies maintained by the Corporation; and (iii) the Indemnified Party's reasonable fees and Expenses incurred in connection with enforcement of, or claims for breaches of, any provision of this Agreement.
- (f) **Witness Expenses** – The Corporation shall to the fullest extent permitted by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit pay or reimburse the Indemnified Party for the reasonable and necessary Expenses incurred by Indemnified Party, including a reasonable *per diem* amount as provided in Section 2.1(l), in connection with time spent in the investigation or as a witness for the Corporation or an Entity with respect to any Claim, by reason of the Indemnified Party being a director or officer of the Corporation or director, officer or in similar capacity of an Entity at the Corporation's request.
- (g) **Specific Indemnity for Statutory Obligations** – Without limiting the generality of the preceding Sections 2.1(a) through 2.1(f) of this Agreement, the Corporation agrees, to the fullest extent permitted by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, to exonerate, indemnify and hold the Indemnified Party harmless from and against any and all Losses arising by operation of statute and incurred by or imposed upon the Indemnified Party in relation to the affairs of the Corporation in the Indemnified Party's capacity as a director or officer thereof, including all statutory obligations to creditors, employees, suppliers, contractors, subcontractors, and any government or any agency or division of any government,

whether federal, provincial, state, regional or municipal, or which in any way involve the business or affairs of the Corporation or an Entity for which the Indemnified Party acted as a director, officer or similar capacity at the Corporation's request, provided that the indemnity provided for in this Section 2.1(g) will be available unless it is determined by the Court that the Indemnified Party has not fulfilled the conditions in Section 2.1(b) above.

- (h) **Change of Law** – In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of an Alberta corporation to indemnify a director or officer, it is the intent of the parties hereto that the Indemnified Party shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change after that date of this Agreement in any applicable law, statute or rule which narrows the rights of an Alberta corporation to indemnify a director or officer, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' right and obligations hereunder except as set forth in Section 2.9.
- (i) **Partial Indemnification** – If the Indemnified Party is determined by the Court to be entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the Losses incurred in respect of any Claim but not for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnified Party for the portion thereof to which the Indemnified Party is determined by the Court to be so entitled.
- (j) **Indemnification for Losses of an Indemnified Party Who Is Wholly or Partly Successful** – To the extent the Indemnified Party is a party to (or a participant in) a Claim and is successful, on the merits or otherwise, in the defence of any Claim or any issue or matter therein, the Corporation shall, to the fullest extent permitted by applicable law, exonerate, indemnify, and hold the Indemnified Party harmless against all Losses incurred by the Indemnified Party therewith. If the Indemnified Party is not wholly successful in such Claim but is successful, on the merits or otherwise, as to one or more but less than all the issues or matters in such Claim, the Corporation shall, to the fullest extent permitted by applicable law, exonerate, indemnify, and hold the Indemnified Party harmless against all Losses incurred by the Indemnified Party in connection with each successfully resolved issue or matter. For purposes of this Section 2.1(j), without limitation, the termination of any issue or matter in a Claim by dismissal, with or without prejudice, shall be deemed to be a successful result as to such issue or matter.
- (k) **Advance of Expenses** – The Corporation shall, at the request of the Indemnified Party, to the maximum extent permitted under the Act or otherwise by law on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, promptly:
  - (i) reimburse the Indemnified Party for all Losses incurred by the Indemnified Party in relation to a Claim claimed by the Indemnified Party to be subject to indemnification hereunder; and
  - (ii) pay reasonable and customary advance payments and costs and expenses to service providers of the Indemnified Party; in each case, prior to any settlement or resolution of such Claim to enable the Indemnified Party to properly investigate, defend or appeal such Claim. The Corporation shall pay such advances within ten (10) days after the receipt by the Corporation of a written request from the Indemnified Party requesting such payment or payments from time to time, whether prior to or after final disposition of a Claim. If it is ultimately determined in a final judgment

of a court of competent jurisdiction or final arbitration award of an applicable arbitration proceeding that has become non-appealable that the Indemnified Party did not fulfill the conditions in Section 2.1(b) or that the Indemnified Party was not entitled to be fully so indemnified, such advance, or the appropriate portion thereof, upon written notice of such determination being given by the Corporation to the Indemnified Party detailing the basis for such determination, shall be repayable on demand without interest. The Indemnified Party shall not be required to provide collateral or otherwise secure the Indemnified Party's agreement to repay described in the prior sentence. If and to the extent the Indemnified Party makes any such repayment to the Corporation, the obligation of the Corporation to indemnify the Indemnified Party will continue in accordance with the terms of this Agreement.

- (l) **Per Diem Charge** – In addition to any other amount payable to the Indemnified Party under this Agreement, the Indemnified Party shall be entitled to receive from the Corporation a *per diem* payment (the “**Per Diem Charge**”) for time spent with respect to any Claim for which the Indemnified Party is otherwise entitled to indemnification pursuant to any one of the foregoing provisions of Section 2.1 of this Agreement. For directors, the Per Diem Charge shall be an amount equal to US\$350 per hour. For officers, the Per Diem Charge shall be zero if the Indemnified Party is still employed on a full time basis by the Corporation at the time the Per Diem Charge is payable or has been terminated for cause by the Corporation, and the Per Diem Charge shall be in an amount equal to US\$350 per hour if the Indemnified Party is not employed on a full time basis by the Corporation at the time the Per Diem Charge is payable other than as a result of termination for cause.
- (m) **Taxes** – For greater certainty, a Claim subject to indemnification pursuant to Article 2 of this Agreement shall include any Taxes which the Indemnified Party may be subject to or suffer or incur as a result of, in respect of, arising out of or referable to any indemnification of the Indemnified Party by the Corporation pursuant to this Agreement; *provided, however,* that any amount required to be paid with respect to such Taxes shall be payable by the Corporation only upon the Indemnified Party remitting or being required to remit any amount payable on account of such Taxes.
- (n) **Right to Access** – The Indemnified Party (and its legal representatives) is entitled to have access to and inspect the Corporation's records and documents which are under its control and which may be reasonably necessary in order to defend the Indemnified Party against a Claim which has been or which the Indemnified Party reasonably anticipates may be made against the Indemnified Party, provided that the Indemnified Party (and its legal representatives) maintains all such information in the strictest confidence except to the extent necessary for the defence of the Indemnified Party. The Corporation shall provide the Indemnified Party (and its legal representatives) with access to the relevant documents and records during the regular business hours of the Corporation as soon as practicable following a request for such access by or on behalf of the Indemnified Party. The Indemnified Party (and its legal representatives) shall be entitled to make and receive copies (including electronic copies) of any of such records and documents of the Corporation at the cost of the Corporation and such copies shall be provided as soon as practicable following a request therefor by or on behalf of the Indemnified Party. If the Indemnified Party is the subject of or is implicated in any way during the proceeding of any Claim, the Corporation will share with the Indemnified Party (and its legal

representatives) any information that it has turned over to any third parties in connection therewith.

- (o) **Enforcement** – The Indemnified Party’s right to indemnification and other rights under this Agreement shall be specifically enforceable by the Indemnified Party in a “court” (as defined in the Act) and shall be enforceable notwithstanding any adverse determination by or on behalf of the Corporation’s board of directors and no such determination shall create a presumption that the Indemnified Party is not entitled to be indemnified hereunder. In any such action, the Corporation shall have the burden of proving that indemnification is not required or permitted under this Agreement.
- (p) **Court Approvals** – If the payment of an indemnity under any provision of this Agreement requires any court or other approvals, the Corporation shall make the application or seek such other required approvals and use reasonable best efforts to obtain such order or other required approvals, including paying the costs of such application or seeking such other required approvals and paying the expenses of the Indemnified Party, to the extent permitted by applicable law, in connection with any such order or approval process. If the Corporation fails to do so, the Indemnified Party may apply to the Court or other applicable court, agency or body for an order or seek such other required approvals approving the indemnity of the Indemnified Party pursuant to this Agreement, and the Corporation shall pay the expenses of the Indemnified Party, to the extent permitted by applicable law, in connection with any such order or approval process.

## 2.2 Notice of Proceedings

- (a) The Indemnified Party shall give notice in writing to the Corporation as soon as practicable upon being served with any statement of claim, writ, notice of motion, indictment, subpoena, investigation order or other document commencing, threatening or continuing any Claim which may result in a claim for indemnification under this Agreement, and the Corporation agrees to give the Indemnified Party notice in writing as soon as practicable upon it being served with any statement of claim, writ, notice of motion, indictment, subpoena, investigation order or other document commencing, threatening or continuing any Claim which may result in a claim for indemnification under this Agreement. Such notice shall include a description of the Claim or threatened Claim, a summary of the facts giving rise to the Claim or threatened Claim and, if possible, an estimate of any potential liability arising under the Claim or threatened Claim. Failure by either party to so notify the other of any Claim shall not relieve the Corporation from liability under this Agreement except to the extent that the failure materially prejudices the Corporation.
- (b) If, at the time the Corporation gives the Indemnified Party notice in connection with Section 2.2(a), a Policy is in effect with respect to the Indemnified Party, the Corporation shall give prompt notice of the applicable Claim to its insurers in accordance with the procedures set forth in such Policy. The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay all amounts payable as a result of such Claim in accordance with the terms of such Policy.

### **2.3 Subrogation**

Promptly after receiving written notice from the Indemnified Party of any Claim or threatened Claim (other than a Claim by or on behalf of the Corporation to procure a judgment in its favour against the Indemnified Party), the Corporation may by notice in writing to the Indemnified Party, and upon the written request of the Indemnified Party the Corporation shall, in a timely manner assume conduct of the defence thereof and retain counsel on behalf of the Indemnified Party who is reasonably satisfactory to the Indemnified Party, to represent the Indemnified Party in respect of the Claim. On delivery of such notice by the Corporation, other than pursuant to Section 2.4, the Corporation shall not be liable to the Indemnified Party under this Agreement for any fees and disbursements of counsel the Indemnified Party may subsequently incur with respect to the same matter. If the Corporation assumes conduct of the defence on behalf of the Indemnified Party, the Indemnified Party hereby consents to the conduct thereof and of any action taken by the Corporation, in good faith, in connection therewith, and the Indemnified Party shall fully cooperate in such defence including the provision of documents, attending examinations for discovery, making affidavits, meeting with counsel, testifying and divulging to the Corporation all information reasonably required to defend or prosecute the Claim.

### **2.4 Separate Counsel**

In connection with any Claim or other matter for which the Indemnified Party may be entitled to indemnity under this Agreement, the Indemnified Party shall have the right to employ separate counsel and consultants of the Indemnified Party's choosing and to participate in and approve any settlement by the Corporation of any Claim involving or affecting in any manner whatsoever the Indemnified Party, and provided that:

(a) the employment of such counsel and consultants of the Indemnified Party's choosing have been previously approved by the Corporation, acting reasonably; or (b) the Indemnified Party has reasonably concluded that there may be a conflict of interest between the Corporation and the Indemnified Party in defending such Claim; then all fees, expenses and disbursements of such counsel and consultants shall be at the Corporation's expense and shall be paid within ten (10) days of invoices being submitted to the Corporation.

### **2.5 Presumption of Indemnification**

- (a) In making a determination with respect to entitlement to indemnification hereunder, the Corporation shall, to the fullest extent not prohibited by law, presume that the Indemnified Party is entitled to indemnification under this Agreement, and the Corporation shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by the Court of any determination contrary to that presumption. Neither the failure of the Corporation to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because the Indemnified Party has met the applicable standard of conduct, nor an actual determination by the Corporation that the Indemnified Party has not met such applicable standard of conduct, shall be a defence to the action or create a presumption that the Indemnified Party has not met the applicable standard of conduct.
- (b) If the Corporation shall not have made a determination with respect to entitlement to indemnification within sixty (60) days after receipt by the Corporation of the request therefor, the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and the Indemnified Party

shall be entitled to such indemnification, absent a prohibition of such indemnification under applicable law.

- (c) The knowledge or actions, or failure to act, of any director, officer, agent or employee of the Entity shall not be imputed to the Indemnified Party for purposes of determining the right to indemnification under this Agreement.

## **2.6 Presumption of Good Faith**

- (a) For the purposes of any determination of good faith under this Agreement, the Indemnified Party shall be deemed to have acted in good faith if the Indemnified Party's action is based on the records or books of account of the Corporation or an Entity, including applicable financial statements, or on information supplied to the Indemnified Party by officers of the Corporation or an Entity (other than the Indemnified Party) in the course of their duties, or on the advice of legal counsel of the Corporation, an Entity, their respective board of directors, counsel selected by any committee of their respective board of directors or on information or records given or reports made to the Corporation or an Entity by an independent certified public accountant or by an appraiser, investment banker, compensation consultant or other expert selected with reasonable care by the Corporation, an Entity, their respective board of directors or any committee of their respective board of directors or by any other person as to matters the Indemnified Party reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation. The provisions of this Section 2.6 shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnified Party may be deemed to have fulfilled the conditions in Section 2.1(b) or met any other applicable standard of conduct.
- (b) Unless the Court or a court of competent jurisdiction otherwise has held or decided that the Indemnified Party is not entitled to be fully or partially indemnified under this Agreement, the termination of any civil, criminal or administrative action or proceedings by judgement, order, settlement, conviction or similar or other result or upon a plea of "no contest" or the equivalent will not, of itself: (i) create a presumption for the purposes of this Agreement that the Indemnified Party did not act honestly and in good faith with a view to the best interests of the Corporation or Entity; (ii) in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, that the Indemnified Party did not have reasonable grounds for believing that the Indemnified Party's conduct was lawful; or (iii) that the Indemnified Party is not entitled to indemnity under this Agreement.

## **2.7 Settlement of a Claim**

For greater certainty, no admission of liability and no settlement of any Claim in a manner adverse to the Indemnified Party shall be made without the consent of the Indemnified Party, acting reasonably. No admission of liability shall be made by the Indemnified Party without the consent of the Corporation and the Corporation shall not be liable for any settlement of any Claim made without its consent, acting reasonably.

## 2.8 Other Rights and Remedies Unaffected

The indemnification and advance payment provided in this Agreement shall not derogate from or exclude any other rights to which the Indemnified Party may be entitled under any provision of the Act or otherwise at law, the articles or by-laws of the Corporation, any applicable policy of insurance, guarantee or third-party indemnity, any vote of shareholders of the Corporation, or otherwise, both as to matters arising out of the Indemnified Party's capacity as a director or officer of the Corporation or as to matters arising out of any other capacity in which the Indemnified Party may act for or on behalf of the Corporation.

## 2.9 Exceptions

Any other provision herein to the contrary notwithstanding, the Corporation shall not be obligated pursuant to the terms of this Agreement:

- (a) **Claims Initiated by the Indemnified Party** – To indemnify or advance expenses to the Indemnified Party with respect to any proceeding or Claim initiated or brought voluntarily by the Indemnified Party and not by way of defence, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any statute, the articles or by-laws of the Corporation or otherwise but such indemnification or advancement of expenses may be provided by the Corporation in specific cases if the Corporation's board of directors has approved the initiation or bringing of such suit.
- (b) **Frivolous Proceedings** – To indemnify the Indemnified Party for any expenses incurred by the Indemnified Party with respect to any proceeding instituted by the Indemnified Party to enforce or interpret this Agreement, if the Court or a court of competent jurisdiction determines that each of the material assertions made by the Indemnified Party in such proceedings were frivolous.
- (c) **Insured Claims** – To make any payment in connection with any Claim made against the Indemnified Party to the extent the Indemnified Party has otherwise received payment (under any insurance policy, the articles or by-laws of the Corporation, contract or otherwise) of the amounts otherwise indemnifiable hereunder. If the Corporation makes any indemnification payment to the Indemnified Party in connection with any particular expense indemnified hereunder and the Indemnified Party has already received or thereafter receives, and is entitled to retain, duplicate payments in reimbursement of the same particular expense, then the Indemnified Party shall reimburse the Corporation in an amount equal to the lesser of: (i) the amount of such duplicate payment; and (ii) the full amount of such indemnification payment made by the Corporation.
- (d) **Claims for Unlawful Profits** – To indemnify the Indemnified Party for the disgorgement of profits arising from the purchase and sale by the Indemnified Party of securities in violation of Section 16(b) of the Exchange Act (or any successor statute) or any other applicable securities law or Losses incurred by the Indemnified Party for Claims in connection with such payment.
- (e) **Other Indemnification** – To indemnify the Indemnified Party for expenses for which the Indemnified Party is indemnified by the Corporation otherwise than pursuant to this Agreement.

- (f) **Not Lawful** – To indemnify the Indemnified Party if (and to the extent that) a final decision by the Court, a court of competent jurisdiction, or an arbitration body having jurisdiction in the matter shall determine that such indemnification is not lawful.

## **2.10 Articles and By-Laws**

The Corporation agrees that the articles and by-laws of the Corporation in effect on the date hereof shall not be amended to reduce, limit, hinder or delay: (a) the rights of the Indemnified Party granted hereunder; or (b) the ability of the Corporation to indemnify the Indemnified Party as required hereunder. The Corporation further agrees that it shall exercise the powers granted to it under the articles and by-laws of the Corporation and applicable law to indemnify the Indemnified Party to the fullest extent possible as required by this Agreement.

## **ARTICLE 3 INSURANCE**

### **3.1 The Policy**

The Corporation shall purchase and maintain, or cause to be purchased and maintained, while the Indemnified Party remains a director or officer of the Corporation or director, officer or a similar capacity of an Entity at the Corporation's request, and in accordance with Section 3.6, for a period of six (6) years after the Indemnified Party ceases to be a director or officer of the Corporation, a Policy including Side "A" difference in conditions coverage, for the benefit of the Indemnified Party containing such customary terms and conditions and in such amounts as are available to the Corporation on reasonable commercial terms, having regard to the nature and size of the business and operations of the Corporation and its subsidiaries from time to time. In all such Policies, the Indemnified Party, by reference to the Indemnified Party's position or otherwise, shall be named as an insured. The Corporation shall thereafter take all necessary or desirable action to cause its insurer to pay, on behalf of the Indemnified Party, all amounts payable as a result of such Claims in accordance with the terms of such policies.

### **3.2 Variation of Policy**

So long as the Indemnified Party is a director or officer of the Corporation or director, officer or similar capacity of an Entity at the Corporation's request, and, in accordance with Section 3.6, for a period of six (6) years thereafter, the Corporation shall not seek to amend or discontinue the Policy or allow the Policy to lapse.

### **3.3 Run-Off Coverage**

If the Policy is discontinued for any reason, the Corporation shall purchase, maintain and administer, or cause to be purchased, maintained and administered for a period of six (6) years after such discontinuance, insurance for the benefit of the Indemnified Party (the "**Run-Off Coverage**"), on such terms as the Corporation then maintains in existence for its directors and officers, to the extent permitted by law and provided such Run-Off Coverage is available on commercially acceptable terms and premiums (as determined by the Corporation's board of directors acting reasonably). The Run-Off Coverage shall provide coverage only in respect of events occurring prior to the discontinuance of the Policy.

### **3.4 Insurable Events**

If an insurable event occurs, the Corporation shall indemnify the Indemnified Party as agreed hereto regardless of whether the Corporation receives the insurance proceeds. The Indemnified Party is entitled to full indemnification as agreed hereto notwithstanding any deductible amounts or policy limits contained in any such insurance policy.

### **3.5 Exclusion of Indemnity**

Notwithstanding any other provision in this Agreement to the contrary, the Corporation shall not be obligated to indemnify the Indemnified Party under this Agreement for any Losses which have been paid to, by or on behalf of, the Indemnified Party under the Policy or any other applicable policy of insurance maintained by the Corporation.

### **3.6 Post Office Directors and Officers Insurance**

Following the Indemnified Party ceasing to be a director or officer of the Corporation or director, officer or similar capacity of an Entity at the Corporation's request, for any reason whatsoever, the Corporation shall continue to purchase and maintain directors' and officers' liability insurance, for the benefit of the Indemnified Party for a minimum of six (6) years, such that the Indemnified Party's insurance coverage is, during that time, the same as any insurance coverage the Corporation purchases and maintains for the benefit of its then current directors and officers, from time to time. Notwithstanding the foregoing, if: (a) liability insurance coverage for former directors and officers is no longer available; or (b) it is no longer industry practice among responsible companies to procure liability insurance for former directors and officers and the cost to the Corporation to do so would be commercially unreasonable (as determined by the board of directors acting reasonably), the Corporation shall be relieved of its obligation to procure liability insurance coverage for former directors and officers; provided that the Corporation procures such level of insurance coverage, if any, as is available for former directors and officers at a commercially reasonable rate and adopts comparable measures to protect its former directors and officers in the circumstances as are adopted by other responsible companies. The onus is on the Corporation to establish that the circumstances described in the previous sentence exist.

### **3.7 Deductible under Directors and Officers Insurance**

If for any reason whatsoever, any directors' and officers' liability insurer asserts that the Indemnified Party is subject to a deductible under any existing or future Policy purchased and maintained by the Corporation for the benefit of the Indemnified Party, the Corporation shall pay the deductible for and on behalf of the Indemnified Party.

### **3.8 Notice**

The Corporation agrees to provide notice of any material changes in the insurance coverage referred to in Article 3 during the period in which the Indemnified Party serves as director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request and for a period of six (6) years thereafter.

### **3.9 Most Favoured Nation**

The Corporation agrees that if the Corporation enters into any indemnity agreement or similar arrangement with any person who is, or becomes, a director or officer of the Corporation or a director, officer or

similar capacity of an Entity at the Corporation's request, and such agreement or arrangement contains any provision which is more favourable to the other party to such agreement than the provisions of this Agreement are to the Indemnified Party then, and in each such case, the Corporation shall provide written notice of such provision to the Indemnified Party (which shall include a copy of such provision). Upon such notice, unless the Indemnified Party elects otherwise within five (5) days of receipt of such notice, this Agreement shall be deemed to be amended to conform the provisions of this Agreement to such more favourable provision.

#### **ARTICLE 4 MISCELLANEOUS**

##### **4.1 Corporation and Indemnified Party to Cooperate**

The Corporation and the Indemnified Party shall, from time to time, provide such information and cooperate with the other, as the other may reasonably request, in respect of all matters under this Agreement.

##### **4.2 Effective Time**

This Agreement shall be deemed to have effect as and from the first date that the Indemnified Party became a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request.

##### **4.3 Insolvency**

The liability of the Corporation under this Agreement shall not be affected, discharged, impaired, mitigated or released by reason of the discharge or release of the Indemnified Party in any bankruptcy, insolvency, receivership or other similar proceeding of creditors.

##### **4.4 Multiple Proceedings**

No action or proceeding brought or instituted under this Agreement and no recovery pursuant thereto shall be a bar or defence to any further action or proceeding which may be brought under this Agreement.

##### **4.5 Termination**

- (a) Nothing in this Agreement will prevent the Indemnified Party from resigning as a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request at any time.
- (b) The obligations of the Corporation will not terminate or be released upon the Indemnified Party resigning or ceasing to act as a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request.

##### **4.6 Limitation of Actions and Release of Claims**

To the extent permitted by applicable law, no legal action shall be brought and no course of action shall be asserted by or on behalf of the Corporation against the Indemnified Party after the expiration of two years from the date of the Indemnified Party's ceasing to act as a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request and the Corporation agrees that any claim or cause of action of the Corporation shall be extinguished and the Indemnified Party be

deemed released therefrom absolutely unless asserted by the commencement of legal action in a court of competent jurisdiction within such two yearperiod.

## **ARTICLE 5 CONTRIBUTION**

### **5.1. Contribution Payment**

- (a) To the fullest extent permitted by law, whether or not the indemnification provided in Article 2 is available, in respect of any threatened, pending or completed Claim in which the Corporation is jointly liable with the Indemnified Party (or would be if joined in such Claim), the Corporation shall pay, in the first instance, the entire amount of any judgment or settlement of such Claim without requiring the Indemnified Party to contribute to such payment, and the Corporation hereby waives and relinquishes any right of contribution it may have against the Indemnified Party. The Corporation shall not enter into any settlement of any Claim in which the Corporation is jointly liable with the Indemnified Party (or would be if joined in such Claim) unless such settlement provides for a full and final release of all claims asserted against the Indemnified Party.
- (b) Without diminishing or impairing the obligations of the Corporation set forth in the preceding paragraph, if, for any reason, the Indemnified Party shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed Claim in which the Corporation is jointly liable with the Indemnified Party (or would be if joined in such Claim), the Corporation shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by the Indemnified Party in proportion to the relative benefits received by the Corporation and all officers, directors or employees of the Corporation, other than the Indemnified Party, who are jointly liable with the Indemnified Party (or would be if joined in such Claim), on the one hand, and the Indemnified Party, on the other hand, from the transaction or events from which such Claim arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Corporation and all officers, directors or employees of the Corporation other than the Indemnified Party who are jointly liable with the Indemnified Party (or would be if joined in such Claim), on the one hand, and the Indemnified Party, on the other hand, in connection with the transaction or events that resulted in such Expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which applicable law may require to be considered.
- (c) The Corporation hereby agrees, to the fullest extent permitted by applicable law, to fully indemnify and hold the Indemnified Party harmless from any claims of contribution which may be brought by officers, directors or employees of the Corporation, other than the Indemnified Party, who may be jointly liable with the Indemnified Party.
- (d) To the fullest extent permissible under applicable law and without diminishing or impairing the obligations of the Corporation set forth in the preceding paragraphs of this Section 5.1, if the indemnification provided for in this Agreement is unavailable to the Indemnified Party for any reason whatsoever, the Corporation, in lieu of indemnifying the Indemnified Party, shall contribute to the amount incurred by the Indemnified Party, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in

settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Claim in order to reflect (i) the relative benefits received by the Corporation and the Indemnified Party as a result of the event(s) and/or transaction(s) giving cause to such Claim; and/or (ii) the relative fault of the Corporation (and its directors, officers, employees and agents) and the Indemnified Party in connection with such event(s) and/or transaction(s).

## **5.2 Relative Fault**

The relative fault of the Indemnified Party, on the one hand, and of the Corporation and any and all other parties (including officers and directors of the Corporation other than the Indemnified Party) who may be at fault with respect to such matter shall be determined (i) by reference to the relative fault of the Indemnified Party as determined by the court or other governmental agency assessing the contribution amounts or (ii) to the extent such court or other governmental agency does not apportion relative fault, by independent counsel agreed to by both the Corporation and the Indemnified Party after giving effect to, among other things, the degree of which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary, the degree to which their conduct is active or passive, the degree of the knowledge, access to information, and opportunity to prevent or correct the subject matter of the Claim and other relevant equitable considerations of each party. The Corporation and the Indemnified Party agree that it would not be just and equitable if contribution pursuant to this Section 5.2 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 5.2.

## **ARTICLE 6 GENERAL**

### **6.1. Term**

This Agreement shall continue after the Indemnified Party ceases to serve as a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request and shall survive indefinitely.

### **6.2. Deeming Provision**

The Indemnified Party shall be deemed to have acted or be acting at the specific request of the Corporation upon the Indemnified Party's being appointed or elected as a director or officer of the Corporation or a director, officer or similar capacity of an Entity at the Corporation's request.

### **6.3. Assignment**

Neither Party may assign this Agreement or any rights or obligations under this Agreement without the prior written consent of the other Party. This Agreement shall enure to the benefit of and be binding upon the Parties and the heirs, executors and administrators and other legal representatives of the Indemnified Party and the successors and permitted assigns of the Corporation (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Corporation).

#### **6.4. Amendments and Waivers**

No supplement, modification, amendment or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any Party, shall be binding unless executed in writing by the Party to be bound thereby. For greater certainty, the rights of the Indemnified Party under this Agreement shall not be prejudiced or impaired by permitting or consenting to any assignment in bankruptcy, receivership, insolvency or any other creditor's proceedings of or against the Corporation or by the winding-up or dissolution of the Corporation.

#### **6.5. Notices**

Any notice, consent or approval required or permitted to be given in connection with this Agreement (in this Section referred to as a "**Notice**") shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by facsimile or e-mail:

- (a) in the case of a Notice to the Indemnified Party at:

Douglas A. Edwards

Facsimile:

e-mail:

- (b) in the case of a Notice to the Corporation at:

DIRTT Environmental Solutions Ltd.

Attn: General Counsel

7303 30th Street S.E.

Calgary, Alberta T2C 1N6

Facsimile:

e-mail:

Any Notice delivered or transmitted to a Party as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that it is delivered or transmitted on a business day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if the Notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a business day then the Notice shall be deemed to have been given and received on the next business day.

Any Party may, from time to time, change its address for Notice set out in this Section 6.5 by giving Notice to the other Party in accordance with the provisions of this Section.

#### **6.6. Further Assurances**

The Corporation and the Indemnified Party shall, with reasonable diligence, do all such further acts, deeds or things and execute and deliver all such further documents as may be necessary or advisable for the purpose of assuring and conferring on the Indemnified Party the rights hereby created or intended, and of giving effect to and carrying out the intention or facilitating the performance of the terms of this Agreement or to evidence any advance made pursuant to Section 2.1(k).

**6.7. Independent Legal Advice**

The Indemnified Party acknowledges that the Indemnified Party has been advised to obtain independent legal advice with respect to entering into this Agreement, that it has obtained such independent legal advice or has expressly determined not to seek such advice, and that the Indemnified Party is entering into this Agreement with full knowledge of the contents hereof, of the Indemnified Party's own free will and with full capacity and authority to do so.

**6.8. Execution and Delivery**

This Agreement may be executed by the Parties in counterparts and may be executed and delivered by facsimile or other form of electronic transmission, and all such counterparts and facsimiles or forms of electronic transmission together shall be deemed to be an original and shall constitute one and the same agreement.

*[Signature Page Follows]*

IN WITNESS OF WHICH the Parties have duly executed this Agreement.

**DIRTT ENVIRONMENTAL SOLUTIONS LTD.**

Per: /s/ Charles R. Kraus  
Name: Charles R. Kraus  
Title: General Counsel

SIGNED, SEALED AND DELIVERED  
In the presence of:

/s/ Geoffrey D. Krause

/s/ Douglas A. Edwards

Witness

Douglas A. Edwards

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**Schedule I**

The Company entered into an Indemnification Agreement with each of Aron R. English; Cory J. Mitchell; Douglas A. Edwards, Mary Garden; Scott L. Robinson; Scott C. Ryan; Ken Sanders; Geoffrey D. Krause; Jeffrey A. Calkins; Mark Greffen; Charles R. Kraus; and Jennifer Warawa that is identical to the one entered into with Douglas A. Edwards

**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, Jeffrey A. Calkins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DIRTT Environmental Solutions Ltd. (the “registrant”) for the quarter ended March 31, 2022;
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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: May 4, 2022

By: /s/ Jeffrey A. Calkins  
Jeffrey A. Calkins  
Interim Co-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 DIRTT Environmental Solutions Ltd. (the “registrant”) for the quarter ended March 31, 2022;
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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: May 4, 2022

By: /s/ Geoffrey D. Krause  
Geoffrey D. Krause  
Interim Co-Chief Executive Officer and 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 March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey A. Calkins, Interim Co-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: May 4, 2022

By: /s/ Jeffrey A. Calkins  
Jeffrey A. Calkins  
Interim Co-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 March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Geoffrey D. Krause, Interim Co-Chief Executive Officer and 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: May 4, 2022

By: /s/ Geoffrey D. Krause  
Geoffrey D. Krause  
Interim Co-Chief Executive Officer and Chief Financial Officer  
(Principal Financial Officer)