

DIRTT®



DIRTT 2024
ANNUAL REPORT

ISSUED 2024 02 21



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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023

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

N/A
(IRS Employer
Identification No.)

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
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the common shares on The Nasdaq Stock Market on June 30, 2023, was \$17,074,379.

The registrant had 191,110,385 common shares outstanding as of February 16, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the Annual and Special Meeting of Shareholders, scheduled to be held on May 9, 2024, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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EXPLANATORY NOTE

Currency and Exchange Rate Information

Unless otherwise indicated, references in this Annual Report on Form 10-K (the “Annual Report”) to “\$” or “dollars” are expressed in U.S. dollars (US\$). References in this Annual Report to Canadian dollars are noted as “C\$.”

Our consolidated financial statements that are included in this Annual Report are presented in U.S. dollars. Unless otherwise stated, all figures presented in Canadian dollars and translated into U.S. dollars were calculated using the daily average exchange rate as reported by the H.10 statistical release of the Board of Governors of the Federal Reserve System on December 29, 2023 of C\$1.3202 = US\$1.00.

Market and Industry Data

Certain market and industry data contained in this Annual Report, including Item 1. “Business” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are based upon information from government or other third-party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third-party publications, reports and websites do not guarantee the accuracy or completeness of their information. While management believes this data to be reliable, market and industry data are subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data-gathering process, and other limitations and uncertainties inherent in any statistical survey.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual 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 (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 Annual Report, regarding without limitation 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 Annual Report, the words “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “project,” “outlook,” “may,” “will,” “should,” “would,” “could,” “can,” “continue,” 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. In particular and without limitation, this Annual Report contains forward-looking information pertaining to the effect of our strategic priorities on increasing value creation; the application of our processes and technology and the benefits therefrom, forecast operating and financial results, including 2024 revenue, and the impact of certain cost-saving measures, including anticipated proceeds from the sale of assets at the Rock Hill Facility (as defined herein), the development, timing and success of strategic accounts, the outcome of non-dilutive strategy initiatives, the competitiveness of the Company’s solutions, the liquidity and capital resources of the Company, the effects that current claims against the Company and expiring patents will have on the Company’s business, financial condition, results of operations and growth prospects; our executive management team and the effect the rating systems established by the U.S. Green Building Council will have on demand for products, systems and services in the U.S. market. 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 can be found in Item 1A. “Risk Factors,” Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this Annual Report. These factors include, but are not limited to, the following:

- general economic and business conditions in the jurisdictions in which we operate;
- our ability to implement our strategic plan, including realization of benefits from certain cost-optimization initiatives undertaken since 2022 and into 2024, and the ability of our board of directors (“Board of Directors”) to successfully implement its transformation plan;
- inflation and material fluctuations of commodity prices, including raw materials, and our ability to set prices for our products that satisfactorily adjust for inflation and fluctuations in commodity prices;
- volatility of our share price and potentially limited liquidity for U.S. investors due to our common shares being quoted on the “OTC Pink Tier”;
- the availability of capital or financing on acceptable terms, or at all, which may impact our liquidity and impair our ability to make investments in the business;
- turnover of our key executives and difficulties in recruiting or retaining key employees;
- our history of negative cash flow from operating activities;
- our ability to generate sufficient revenue to achieve and sustain profitability and positive cash flows;
- our ability to attract, train and retain qualified hourly labor on a timely basis to increase overall productive capacity in our manufacturing facilities to enable us to capture rising demand in the construction industry;
- our ability to achieve and manage growth effectively;
- competition in the interior construction industry;
- our two largest shareholders are able to exercise a significant amount of control over the Company due to their significant ownership of our common shares, and their interests may conflict with or differ from the interests of our other shareholders;
- 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 construction partners 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;
- the effectiveness of our manufacturing processes and our success in implementing improvements to those processes;
- the effectiveness of certain elements of our administrative systems and the need for investment in those systems;
- shortages of supplies of certain key components and materials or disruption in supplies due to global events;
- global economic, political and social conditions affecting financial markets, such as the war in Ukraine and the Israel-Hamas war;
- our exposure to currency exchange rates, tax rates, interest 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 and our ability to protect and enforce our intellectual property rights, including certain intellectual property rights that are jointly owned with a third party;
- 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;
- the impact of increasing attention to environmental, social and governance (ESG) matters on our business;
- periodic fluctuations in our results of operations and financial conditions;
- 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 and treatment of government subsidies (including any current or future requirements to repay or return such subsidies);
- future mergers, acquisitions, agreements, consolidations or other corporate transactions we may engage in; and
- other factors and risks described under the heading “Risk Factors” in Item 1A. of this Annual Report.

These risks are not exhaustive. Because of these risks and other risks and uncertainties, our actual results, performance or achievement, or industry results, may be materially different from the anticipated or estimated results discussed in the forward-looking statements in this Annual 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

Item 1. Business.

Overview

DIRTT is an interior construction company whose system of physical products and digital tools empowers design freedom, drives efficiency, supports sustainability goals, and readily adapts to change. Since 2004, DIRTT has grown to become a leader in industrialized construction for dynamic interior spaces, translating unique visions into compelling spaces where people work, learn, and heal.

DIRTT's construction system offers unrivaled design freedom, accuracy, and quality assurance together with greater certainty in cost, schedule, and outcomes. By empowering faster decision making, rapid manufacturing, and efficient installation, DIRTT can reduce construction timelines by as much as 30% compared to conventional construction methods.

DIRTT spaces are built for change and ready to adapt as organizational needs evolve. Design for disassembly ensures components are interchangeable and can be repurposed for small updates or full reconfigurations without major renovation, cost, or waste.

Our approach to industrialized construction combines a sophisticated product infrastructure with a dedicated team of construction experts and advanced digital tools. DIRTT's first-of-its-kind software called ICE® ("ICE" or "ICE Software") serves as the engine for our industrialized construction system, enabling solutions to be designed, visualized, organized, configured, priced, and manufactured off-site, with final assembly and installation completed at the job site. Our clients' design visions are translated into the intelligent software platform, empowering faster decision making during design with real-time changes, visualization, and pricing information. ICE connects directly to DIRTT manufacturing facilities for end-to-end integration, precise manufacturing, production management, and coordination of the DIRTT scope. Our ICE Software is also licensed to unrelated companies and Construction Partners (as defined herein) of the Company, including Armstrong World Industries, Inc. ("AWI") which owns a 50% interest in the rights, title and interests in certain intellectual property rights in a portion of the ICE Software that is used by AWI. In addition to the core ICE platform, our cloud-based virtual reality tool and app, called ICReality, connects teams from anywhere in the world to walk through their virtual space together, while design changes can be made with real-time feedback on pricing.

We work with some of the most innovative clients, design teams, and construction professionals. We reach our clients through an internal sales team and international network of independent DIRTT Construction Partners ("Construction Partners" or "Partners"). Their DIRTT expertise makes them trusted professionals in their regions for pre-construction, order, installation, and adaptation of interior spaces. DIRTT Construction Partners work with clients and construction teams, ensuring effective management and execution of the DIRTT scope on every project. Long term, they support reconfigurations, adaptations, and adjustments, continuously protecting our clients' investments in DIRTT while ensuring their spaces stay relevant.

DIRTT was incorporated in Alberta, Canada, under the Business Corporations Act (Alberta) ("ABCA") on March 4, 2003. Our headquarters are located at 7303 30 Street SE, Calgary, Alberta, T2C 1N6, Canada, and our telephone number at that address is 403-723-5000. Our manufacturing facilities are in Calgary, Alberta and Savannah, Georgia.

We completed our initial public offering in Canada in November 2013 and listed our common shares on the Nasdaq Global Select Market ("Nasdaq") in October 2019. Our common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DRT". Effective October 12, 2023, DIRTT's common shares ceased to trade on the Nasdaq. DIRTT's common shares are quoted on the OTC markets on the "OTC Pink Tier" under the symbol "DRTTF."

Unless otherwise specified or the context otherwise requires, references to "we," "us," "our," "its," "the Company" or "DIRTT" mean DIRTT Environmental Solutions Ltd. and, where the context so requires, includes our subsidiaries.

Available Information

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the U.S. Securities and Exchange Commission ("SEC") under the Exchange Act. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers, including DIRTT, that file electronically with the SEC. We are also subject to requirements of applicable securities laws in Canada, and documents that we file with the securities commissions or similar regulatory authorities in Canada may be found at www.sedarplus.ca.

We make available free of charge through our website (www.dirtt.com) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC or the securities commissions or similar regulatory authorities in Canada. In addition to the reports filed or furnished with the SEC and the securities commissions or similar regulatory authorities in Canada, we publicly disclose information from time to time in our press releases, investor presentations posted on our website and at publicly accessible conferences. References to such information, including references to our Environmental, Social, and Governance (ESG) Report, and references to our website in this Annual Report, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website, and such information should not be considered part of this Annual Report.

We will provide without charge to you, upon your request, a copy of our annual report on Form 10-K for the year ended December 31, 2023, filed with the SEC and the applicable securities commissions or similar regulatory authorities in Canada. Requests for copies should be addressed to 7303 30 Street SE, Calgary, Alberta, T2C 1N6, Canada, Attention: Investor Relations.

Our Solutions

Our array of products and integrations give our clients the tools to create high-performing interiors that stay relevant into the future. Unlike conventional prefabricated products, our solutions do not have predetermined shapes, sizes, or configurations, empowering clients with design freedom to meet their needs. The core of our product philosophy is a construction system that uses a universal interface. By allowing interchangeable parts, DIRTT can maximize the life cycle for most of our products. Committed to sustainability, we subscribe to non-obsolescence, where new DIRTT components work with DIRTT products that came before. Our solutions can be disassembled and reconfigured with minimal waste. With both design freedom and adaptability benefits, client spaces are tailored to their unique needs on Day One and can be more easily reconfigured or adapted to stay relevant on Day Two and beyond.

Our solutions (“DIRTT Solutions”) are typically able to address over 90% of an interior space. Components are manufactured in DIRTT facilities and shipped to site for installation. The following table provides a brief description of our primary solutions:

DIRTT Solution	Description
Solid Walls	DIRTT’s solid walls offer extensive options with 4”, 6”, and 2” furring wall offerings. Solid walls connect seamlessly to other products in the DIRTT construction system and enable unique finishes, colors, and configurations. Wall cavities support electric, network, and technology integrations.
Glass Walls	DIRTT’s glass walls are available as double pane, classic center-mount, or Inspire™ profiles. DIRTT glass walls can accommodate base building variance and acoustic requirements.
Combination Walls	Solid and glass walls can be combined for a mix of privacy and transparency. Combination walls can be customized and configured to fit any design with the benefits of the DIRTT system.
Leaf Folding Walls®	The retractable modular wall system adds functionality with an effortless solution to quickly adapt space. Like other walls in the DIRTT portfolio, dimensions and finishes of Leaf™ can be customized.
Headwalls	This modular, multi-trade healthcare headwall system is an efficient, adaptable approach to healthcare construction. With extensive customization options and integrations, DIRTT Headwalls are an efficient way to meet unique healthcare compliance requirements.
Doors	DIRTT doors integrate seamlessly with DIRTT solid and glass wall assemblies. A wide range of types and styles are available, including swing doors, sliding doors, and pivot doors. Door options can meet smoke-rating and acoustic requirements.
Casework	DIRTT offers custom cabinets, closets, and storage solutions with consistent quality and efficient installation. Precision-manufactured casework is delivered with predictable lead times.
Timber	Traditional craftsmanship meets advanced, custom manufacturing to create striking designs and structural elements. Engineered to meet local requirements, DIRTT Timber integrates with broader DIRTT scopes to bring natural elements to spaces with rapid assembly on-site.
Electrical	DIRTT’s modular electrical system supports connected infrastructure needs. The pre-wired, modular distribution system includes pre-mounted and terminated device boxes installed at the factory to reduce project time and cost on-site. Plug-in connections allow for quick installations and easy modifications.
Networks	DIRTT’s Fiber to the Edge networks deliver unlimited bandwidth capability and longer-reaching signal strength while reducing supporting infrastructure needs and material costs. Industry-leading technology and future-ready infrastructure empowers smart building benefits. Copper-based network options reduce install time and increase flexibility.
Access Floors	Low-profile, fixed-height access floor provides an adaptable foundation for connected infrastructure with long-term accessibility for easy moves, additions, and changes.

In addition to our core product offering, DIRTT enables integrations with technology, custom graphics, writable surfaces, and Breathe® Living Walls. Further product information can be found on dirtt.com.

Sustainability and Environmental Matters

DIRTT aims to minimize the environmental impact of interior construction through careful material selection, efficient operations, a system designed for future adaptability, and long product lifecycles. We work with clients to understand their unique sustainability goals and identify how building with DIRTT can support LEED, WELL, Living Building Challenge, and other green building standards they may be targeting. Our sustainability team helps to calculate various elements of the DIRTT scope that support certification.

Approximately 40% of solid waste in the United States derives from construction and demolition. In contrast, DIRTT's agile construction system makes it quick, easy, and cost effective to evolve interior spaces through future reconfigurations and relocations, while reducing waste. Our agile system is designed for disassembly to reduce the carbon footprint of new construction and future changes. We further reduce waste through efficient manufacturing and pre-assembled solutions.

We regularly evaluate the environmental impact of our materials, considering impact on the wellness of the occupants using the spaces we build and life cycles of the products we make. DIRTT endeavors to use materials with high recycled content, bio-based content, and low or no volatile organic compounds (VOCs). Most DIRTT assemblies are certified through Science Certification Systems (SCS) Indoor Advantage Gold, recognizing their low-emitting properties. DIRTT wall panel and casework facilities are certified to handle materials with FSC® certification (FSC-C006900), ensuring FSC certified products may be specified.

We recognize the vital importance of reducing embodied carbon within DIRTT products. Our environmentally conscious production facilities are regularly evaluated by cross-functional teams who assess and implement energy efficiency strategies. For example, to further reduce our operational carbon footprint, DIRTT's U.S. factories are powered by renewable energy through our purchase of Green-e® certified renewable energy credits (RECs). We further reduce the impact of our operations with recycling and waste diversion programs.

DIRTT releases an annual Environmental, Social, and Governance (ESG) report outlining our commitments to sustainability and the environment. It also provides disclosure of our current environmental and sustainability impacts. DIRTT has set goals to reduce landfill waste by 2025 and to source or produce renewable energy to cover 100% of our factory operations.

Further information about DIRTT's sustainability practices can be found at dirtt.com/sustainability.

Our Business Strategy

Our goal is to help clients envision and design interior construction projects and then build and deliver those projects faster, cleaner, more efficiently and with a better overall client experience and satisfaction than conventional construction methods. The modular aspect of our DIRTT construction system allows them to be easily reconfigured with a minimal amount of waste as client space needs change. Our innovative, technology-driven approach includes outstanding product design that is customized for each client application, and delivered on time and on budget.

Our strategy is founded on the following priorities:

- The identification and pursuit of client segments that benefit most from DIRTT's value proposition;
- Client-centric, continuous innovation in DIRTT construction systems and our technology to enhance product differentiation and drive market penetration and growth;
- Technology-enabled manufacturing processes that facilitate short lead times, a reliable client service platform, and outstanding quality on a cost-effective basis; and
- Ongoing development and support of our Construction Partners to ensure flawless execution and a superior end client experience.

In combination with a focus on cost-discipline, a continuous improvement philosophy, and a focused approach to capital investment, we believe these strategic priorities will drive increased value creation for our employees, clients, Construction Partners, and shareholders.

Our Competitive Strengths

We believe the following attributes provide us with competitive strengths in the industrialized construction industry:

- *Leader in Integrated Design and Manufacturing Technology.* We believe our ICE Software is the only interior construction technology that efficiently integrates the design, configuration, and virtual reality visualization processes with the manufacturing process. The use of 3D technology in a design environment, utilizing video game technology for real time decision making, is an approach pioneered by DIRTT.
- *Easy and Intuitive Software Interface.* Our ICE Software is a fast, powerful tool with an intuitive user interface. Our software's ease of use enables rapid time-to-value for our clients and collaboration among all the stakeholders involved in the design, reconfiguration, budgeting and manufacturing processes. Our use of 3D virtual reality and augmented (mixed) reality technologies enables clients to visualize and modify their designs before manufacturing begins, thereby reducing cost and time to completion.
- *Proprietary Solutions Components.* The physical components that comprise our DIRTT construction system have been designed to provide clients with numerous options and full modularity. As a result, we are able to create interior environments that are fully customizable and not limited by a pre-set product list. The modular nature of our components allows them to be reconfigured or adapted easily, with minimal disruption to the occupants of the space and with minimal job site waste.
- *Strong Construction Partner and Sales Network.* Our strong network of Construction Partners and DIRTT sales representatives allows us to maximize our geographic reach, helps build brand awareness in the interior construction market, and enhances our positioning in our target markets.
- *Superior Results Compared to Conventional Design and Construction.* We believe we produce superior client results as compared with conventional design and construction methods in sequencing, certainty, budget allocation, and outcome.
- *Effective Sequencing.* Conventional construction generally follows a rigid sequencing process. Typically, wall framing is constructed first, followed by floors and electrical and data networks. This process is then followed by drywall installation, painting, and flooring, and then installation or building of casework (millwork) and fixtures. These steps generate significant waste and create opportunities for delay, change orders, cost overruns and rework. In contrast, DIRTT's approach integrates various product applications as tailored to specific project needs. They are manufactured off-site and arrive on-site organized, labeled and ready to be installed. This enables the interior solutions to be produced concurrently with on-site construction work, thereby reducing on-site time and the overall construction schedule.
- *Certainty.* Our technology-based design and manufacturing solutions address changes in design, communications with clients, and material costs with more certainty than conventional construction methods, which often involve retrofitting electrical and data networks, change orders, uncertain timelines, and costly rework. Our controlled manufacturing environment reduces deficiencies and errors and produces more consistent solutions in predictable time frames.
- *Budget.* Because of our integrated design, visualization and manufacturing technologies, we can price the effect of design choices and changes immediately and deliver the fully designed, manufactured interior solutions ready to install. This provides budget certainty both in the cost of our DIRTT Solutions as well as in on-site labor for the installation process.
- *Outcome.* Our interior spaces look like the images our clients expect from the design drawings and virtual visualizations, because those same drawings and visualizations drive the manufacturing process. Plumbing, electrical, A/V and data networks are integrated into the architecture of our DIRTT Solutions. For example, DIRTT Walls carry an aesthetic of permanent walls, but if an IT or facilities team needs to get inside the wall for any reason, they can use a tool to remove the surface of the wall to examine the wall cavity quickly, cleanly and quietly. This eliminates the need to knock down, and then patch and repaint, drywall or reconfigure fixtures and cabinetry. Our modular designs offer flexibility and interconnectivity with any technology, furniture, casework (millwork) or DIRTT Solutions that were previously used or that may be used in the future, allowing clients to reconfigure and repurpose their space while reducing disruptive and time-consuming demolition and waste removal.

Construction Partners and Sales Network

We primarily sell DIRTT Solutions through a network of independent Construction Partners working in conjunction with local DIRTT sales representatives, as well as internal DIRTT industry specialists, business development professionals and a dedicated Construction Partner support team. Construction Partners and local sales representatives are located in cities throughout the United States and Canada, with additional locations in Saudi Arabia, Mexico, the United Kingdom and Singapore. The use of a dispersed network of Construction Partners greatly enhances our ability to drive awareness of the DIRTT brand and understanding of our approach to construction throughout our markets.

As part of our distribution agreements, our Construction Partners are typically required to invest in their own DIRTT Experience Center (“DXC”) so that they are able to effectively showcase DIRTT Solutions. These DXCs are showrooms that provide mock-ups of DIRTT Solutions and related product offerings. As well, DIRTT maintains DXCs in Calgary, Dallas and Chicago.

Our Construction Partners operate under agreements that outline sales goals and marketing territories which are generally non-exclusive. We expect our Construction Partners to build regional DIRTT-dedicated teams (sales, design and project management) and to use our ICE Software in the sales process. In addition to sales and marketing, our Construction Partners provide value throughout the construction process. At the pre-construction stage, Construction Partners provide design assistance services to the architect and designer; throughout the construction process, Construction Partners act as a specialty subcontractor to the general contractor and provide installation and other construction services. Post-move in, Construction Partners provide warranty work, ongoing maintenance and reconfiguring support. Local DIRTT sales representatives work closely with the Construction Partners throughout the process to ensure successful project implementation and the highest client satisfaction. Construction Partners generally place orders for DIRTT Solutions directly with us and pay us directly for such orders.

We have the ability to bring on new Construction Partners in a wide range of geographic areas, which permits us to quickly establish a presence in new market areas. Our Construction Partners also scale our virtual reality technology, such as our smart phone- and tablet-based applications, to fit their capacity and needs.

At December 31, 2023, we had a total of 72 Construction Partners and 39 sales representatives across North America. We are not dependent on any one Construction Partner or sales representative.

Strategic accounts are a cornerstone in our strategy to drive long-term sustainable and predictable growth. These types of clients manage large real estate footprints in numerous locations. For these clients, it is advantageous and important to establish consistency in design and execution, repeatability, and speed to market. While these relationships can take time to develop, once they are established, the time and resources required to execute additional projects is reduced, which we believe will create profitable, predictable revenue streams. In return, clients benefit from a single point of accountability at DIRTT, a strong network of partners, full lifecycle support from established design standards and pre-construction expert support for their architects, designers and general contractors from field work to post installation support.

Manufacturing and Properties

Our DIRTT Solutions are currently manufactured at our facilities in Calgary, Alberta (the “Calgary Facility”) and Savannah, Georgia (the “Savannah Facility”). On February 22, 2022, we announced the closure of our aluminum manufacturing facility in Phoenix, Arizona (the “Phoenix Facility”). On August 23, 2022, we announced the temporary suspension of operations at our Rock Hill, South Carolina facility (the “Rock Hill Facility”). On September 27, 2023, we announced our intention to permanently close the Rock Hill Facility because the Calgary and Savannah Facilities can meet current demands with annual production capacity of \$400 million in revenue. Currently our wall surfaces (which we call panels), casework and timber solutions are manufactured in Calgary, while aluminum, glass and power components are manufactured in Calgary and Savannah. Through distributed manufacturing, we can shift production of some components among our manufacturing sites, reduce transportation times and costs, and meet targeted lead times.

Suppliers and Raw Materials

Our inventory balances consist primarily of raw materials, which are kept on hand as components of our custom manufacturing process. Managing our raw material inventory is essential to our business, given our short lead times from order to shipment and our high level of order customization. Our key manufacturing materials are aluminum, hardware, wood and glass. For the twelve months ended December 31, 2023, aluminum accounted for approximately 31% of our purchased materials, while wood, hardware and finishing powder & paint accounted for approximately 12%, 9%, and 9%, respectively. While we maintain multiple suppliers for key materials, for the twelve months ended December 31, 2023, (i) one supplier accounted for approximately 61% of our aluminum supply and two additional suppliers provided 19% and 18%, respectively, (ii) two suppliers accounted for approximately 46% and 44% of our wood supply (iii) one supplier accounted for 100% of our paint & powder and (iv) one supplier accounted for approximately 42% of our hardware supply.

Materials are sourced domestically and, to a much lesser extent, overseas. Approximately 93% of our materials are manufactured and purchased in North America. Purchase decisions are made on the basis of quality, cost, and ability to meet delivery requirements. We do not typically enter into long-term agreements with suppliers. In general, adequate supplies of raw materials are available to all our operations, but we continue to be impacted by inflationary price pressures across substantially all of our raw material requirements and aluminum purchases may be subject to market capacity constraints.

Technology and Development

We continue to focus on developing client-centric innovations and enhancements of both ICE Software and DIRTT Solutions with a primary focus on improving client experience, increasing market penetration and growing key markets. At December 31, 2023, we employed 73 employees within our technology and development groups and, including capitalized amounts, invested \$8.3 million, \$10.3 million and \$11.1 million in 2023, 2022 and 2021, respectively, in innovation activities.

On May 9, 2023, the Company entered into a Partial Patent Assignment Agreement and a Co-Ownership Agreement (the “AWI Agreement”) with AWI. The AWI Agreements provide for the partial assignment to AWI and co-ownership of an undivided 50% interest in certain intellectual property rights (including related patents) in a portion of the Company’s ICE software that is used by AWI (the “Applicable ICE Code”), in exchange for a cash payment of \$10.0 million. As part of the AWI Agreements, the Company has agreed to provide AWI a transfer of knowledge concerning the Applicable ICE Code, upon completion of which the Company received an additional cash payment of \$1 million. This additional cash payment was received in the fourth quarter of 2023. The AWI Agreement provide that the Company and AWI will have separate exclusive fields of use and restrictive covenants with respect to the Applicable ICE Code and related intellectual property rights which survive until either party elects to separate its relationship from the other and for a period of five years thereafter.

Clients

DIRTT’s principal geographic markets are the United States and Canada. Our revenue is derived almost entirely from projects in North America sold by our North American Construction Partners.

Our revenue opportunities primarily come from commercial projects, including both new construction projects and renovations of existing buildings. Clients range from small owner-managed businesses to multinational Fortune 500 companies across a variety of industries, including healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, technology, and hospitality. We view DIRTT Solutions as generally industry agnostic, with applications in many different industries with minimal adjustments. We are not dependent on any one client or industry segment. In 2023, one Construction Partner represented more than 10% of our revenue (12% in 2023), while no single client represented more than 10% of our revenue for the years ended December 31, 2022 or 2021.

Competition

The overall market for interior construction is fragmented and highly competitive. The principal competitive factors in the interior construction industry include price (including cost certainty), speed, quality, customization, and service. Our main competitors are comprised primarily of conventional construction firms, individual tradespeople (including framers, drywall installers, and interior product designers) and modular systems manufacturers. Additionally, conventional construction firms are beginning to develop customizable wall paneling and other interior construction solutions and may directly compete with our DIRTT Solutions. We also compete with commercial furniture manufacturers, such as Teknion Corporation, Haworth Inc. and Allsteel Inc., who offer a variety of prefabricated interior wall solutions. We expect competition to increase as new entrants or solutions enter the interior construction market. See Item 1A. “Risk Factors”.

Seasonality

The construction industry has also historically experienced seasonal slowdowns related to winter weather conditions and holiday schedules, which affect shipping and on-site installation dates, in the fourth and first quarters of each calendar year. Our business has generally, but not always, followed this trend with a slight time lag, leading to stronger sales in the second half of the year versus the first half. Weather factors can also influence third-party exterior construction schedules and site conditions, which may in turn affect timing of interior builds.

Due to the fixed nature of certain manufacturing costs, such as our facilities leases and related indirect operating costs, periods of higher revenue volume tend to generate higher gross profit and operating income margins, while periods of lower volume tend to result in lower gross profit and operating income margins. Quarters that contain consistent monthly manufacturing volumes tend to generate higher gross profit than those where manufacturing levels vary significantly from month to month.

Patent and Intellectual Property Rights

Our success depends, in part, upon our intellectual property rights relating to our products, production processes, our technology, including our ICE Software, and other operations. We rely on a combination of trade secret, nondisclosure and other contractual arrangements, as well as patent, copyright and trademark laws, to protect our proprietary rights and competitive advantage. We register our patents and trademarks as we deem appropriate and take measures to defend patents where we deem others are infringing on our patents. The following table presents the status as of December 31, 2023, of our issued and pending patents relating to various aspects of DIRTT Solutions and ICE Software:

Jurisdiction	Granted Patents	Applications Pending
Canada	78	37
United States	128	16
European Union	47	3
Singapore	8	1
Patent Cooperation Treaty	-	8
Other	32	-
Total	293	65

Our issued patents expire between 2024 and 2039. We do not believe that the expiration of any individual patent will have a material adverse effect on our business, financial condition or results of operations. As we develop innovations and new technology, we expect to file additional and supplemental patents to protect our rights in those innovations and new technology. As described in more detail above, the Company entered into the AWI Agreement with AWI, under which AWI owns a 50% interest in the rights, title and interests in all the Applicable ICE Code, including a 50% interest in the patent rights that relate to the Applicable ICE Code.

Government Regulations

The operation of our business is subject to stringent and complex laws and regulations pertaining to health, safety, and the environment. As an owner or operator of various manufacturing facilities, we must comply with these laws and regulations at the federal, state, provincial and local levels in both the United States and Canada. Failure to comply with environmental laws and regulations may trigger a variety of administrative, civil, or criminal enforcement actions, including the assessment of monetary penalties, the imposition of investigative or remedial requirements, or the issuance of orders limiting current or future operations. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances or industrial wastes have been mismanaged or otherwise released.

While we do not believe that compliance with federal, state, provincial, or local environmental laws and regulations will have a material adverse effect on our business, financial position or results of operations, we cannot provide any assurances that future events, such as changes in existing laws or regulations, the promulgation of new laws or regulations, or the development or discovery of new facts or conditions related to our operations, will not cause us to incur significant costs.

Legal and Regulatory Proceedings

We may be involved from time to time in various lawsuits, claims, investigations, and other legal matters that arise in the ordinary course of business, including matters involving our products, intellectual property, relationships with suppliers, relationships with Construction Partners, relationships with competitors, employees, and other matters. We may, for example, be a party to various litigation matters that involve product liability, tort liability, and claims under other allegations, including claims from our employees either individually or collectively. We do not believe that any current claims, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations. For additional information regarding our current legal proceedings, see Item 3. "Legal Proceedings."

Implications of Being an Emerging Growth Company

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act enacted in April 2012. Certain specified reduced reporting and other regulatory requirements are available to public companies that are emerging growth companies. These provisions include:

- an exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002;
- an exemption from the adoption of new or revised financial accounting standards until they would apply to private companies;

- an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor’s report in which the auditor would be required to provide additional information about our audit and our financial statements; and
- reduced disclosure about our executive compensation arrangements.

We will continue to be an emerging growth company until the earliest of:

- the last day of our fiscal year in which we have total annual gross revenues of \$1.07 billion (as such amount is indexed for inflation every five years by the SEC to reflect the change in the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics, setting the threshold to the nearest \$1 million) or more;
- December 31, 2024;
- the date on which we have, during the prior three-year period, issued more than \$1 billion in non-convertible debt; or
- the date on which we are deemed to be a “large accelerated filer” under the rules of the SEC, which means the market value of our common shares that is held by non-affiliates (or public float) exceeds \$700 million as of the last day of our second fiscal quarter in our prior fiscal year.

We have elected to take advantage of certain of the reduced disclosure obligations in this Annual Report and may elect to take advantage of other reduced reporting requirements in future filings. As a result, the information that we provide to our shareholders may be different than what you might receive from other public reporting companies in which you hold equity interests. However, we have irrevocably elected not to avail ourselves of the extended transition period for complying with new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We expect to lose emerging growth company status by December 31, 2024.

Human Capital Resources

As at December 31, 2023, DIRTT employed 879 employees, 99% full time, 1% part time. We had 874 full-time employees consisting of 592 employees in production, 100 employees in sales and marketing, 73 employees in technology and development, 48 employees in operations support, and 61 general and administrative employees. At year-end, approximately 45% of our workforce are salaried employees and approximately 55% are compensated on an hourly basis. As at December 31, 2023, approximately 24% of our workforce was based in the United States, and approximately 76% was based in Canada. Our 2023 hiring efforts were directed towards both our manufacturing and non-manufacturing functions. The Company’s recent gender diversity data shows that 25% (2022 – 25%) of our employees are female company wide. In 2023, we hired 174 employees, with 27% of new employees being female.

Diversity & Inclusion

DIRTT recognizes the importance of progressing conversations and initiatives around diversity and inclusion. “Grow through diversity” is one of our core values. Our strategy encompasses leadership training around key topics related to unconscious bias, allyship, and the value of attracting and retaining a diverse and inclusive organization. The strategy further focuses on the establishment and deployment of learning streams, mentoring circles, and incorporation of inclusive language into our offer packages and benefit materials. Our efforts begin at the early stages of the employee life cycle, where diversity candidates are highlighted and presented to hiring managers for review. We seek to hire based on talent, skill, capability needs, and fit. DIRTT has also incorporated diversity into various internal programs including succession planning and risk profiles.

Culture & Engagement

DIRTT has put measures in place to assess and enhance the level of engagement and satisfaction of our employees. Specific activities include the deployment of a performance management tool catered to drive discussions around team goals, performance and development opportunities, and greater transparency around policy and procedures tied to cost and risk mitigation.

In 2023, we conducted two employee engagement surveys through a platform called Employee Voice that deployed company-wide surveys focused on core themes of workplace civility, communication, work-life balance, retention, job satisfaction, employee engagement and diversity and inclusion. Targeted initiatives are being put in place to assess the progression of themes from the survey on overall employee engagement and experience.

Additional initiatives that we attribute to the progression of culture and engagement include launching learning and development opportunities, enhanced communication platforms, employee recognition programs, a company-wide philanthropic organization, and a strong focus on virtual social events to further support engagement and connection of remote employees.

Connecting to our community is a critical piece of the DIRT story. We continue to focus on establishing a stronger community investment program that demonstrates our drive to put community at the center of the business. This involves developing a strategy, carving out a roadmap of initiatives, and establishing a committee of employees across the organization. As part of our strategy, we are focusing our efforts on establishing meaningful engagement opportunities, creating inclusive giving campaigns, driving sustainable impact, and enabling our employees to connect on philanthropic efforts. In the fourth quarter of 2023, we successfully completed our holiday giving campaign which was a coordinated in-person and virtual effort in support of food banks across North America, focusing on the cities in which we operate. The support for this campaign helped to reconnect DIRT employees' desire to give back with tangible outcomes for their communities. We take measures to address the mental health of our employees through a variety of company-wide initiatives.

Our core commitment to organizational safety resulted in a Total Recordable Incident Frequency (TRIF) of 0.4 in 2023, more than 92% below the industry average.

We use a range of compensation incentives which vary by role, including annual variable compensation determined based on a combination of achieving team objectives and financial targets for the Company; quarterly bonuses for our manufacturing personnel paid on adherence to targets related to safety, quality, delivery, inventory and productivity; and commissions based on sales. We also use various forms of stock-based compensation as a retention tool and to further align employee interests with the interests of our shareholders. We monitor our retention by way of voluntary turnover, which was 14% in 2023.

None of our employees are covered by collective bargaining agreements. We have never experienced labor-related work stoppages or strikes, and we believe we currently have a positive relationship with our employees.

Item 1A. Risk Factors.

Investing in our common shares involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this Annual Report, including our consolidated financial statements and the related notes and Part II, Item 7. entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in any documents incorporated in this Annual Report by reference, before deciding whether to invest in our common shares. The occurrence of any of the events or developments described below could harm our business, financial condition, results of operations, and growth prospects. In such an event, the market price of our common shares could decline, and you may lose all or part of your investment. Although we have discussed all known material risks, the risks described below are not the only ones that we may face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Certain statements below are forward-looking statements. See also “Special Note Regarding Forward-Looking Statements” in this Annual Report.

Risks Related to Our Business and Industry

We are under the leadership of a reconstituted Board of Directors who are in the process of implementing 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, since that meeting, there has been significant turnover in the Company’s leadership. In addition to overseeing the changes to DIRTT’s leadership, the reconstituted Board of Directors has undertaken an extensive review of DIRTT’s operations, a process which is still ongoing (see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Outlook”), and are in the process of implementing a variety of operational, organizational, cultural and other changes to our business, including plans to meet pipeline demand and expand revenues. The timely integration of senior management will be critical in the successful implementation of the Board of Directors’ plans. We may not be successful in achieving some or all of the anticipated benefits of these plans, which may have an adverse effect on our results from operations and financial condition.

Certain elements of DIRTT’s administrative systems may not be effective.

DIRTT has identified the need to upgrade its inventory management and cost accounting systems at some point in the future to enable scalable growth, and other information technology investments may be required in the future. The Company is currently unable to estimate the costs and timeline related to such upgrades. However, the success, in whole or in part, of such investments cannot be guaranteed. If the Company does not successfully or timely upgrade its inventory management and cost accounting systems, it may experience unforeseen challenges to its inventory and pricing strategies.

We may not be successful in implementing our strategic plan or managing growth

Implementation of our strategy will require maturity of systems and processes across the organization. There is also no assurance that successful implementation will lead to sustainable, profitable growth, and may itself be disruptive to the Company. Failure to implement our strategic plan could materially and adversely affect our near-term sales, commercial activities, and ability to develop and sustain profitable growth. In addition, the success and timing of our implementation may be dependent upon external factors outside of our control.

Our strategy also depends in part on our ability to maintain and manage growth effectively. Growth in our headcount and operations may place significant demands on our management and operational and financial resources. Additionally, managing growth of our operations and personnel requires continuous improvement of our internal controls and reporting systems and procedures. Failure to effectively manage growth could result in difficulty providing current DIRTT Solutions and introducing future solutions, difficulty in securing clients and Construction Partners, declines in quality or client satisfaction, increases in costs or other operational difficulties. Any of these difficulties could lead to a loss of investor confidence and adversely affect our business performance, financial condition and results of operations.

Our industry is highly competitive, and we may not be successful in educating potential clients about the benefits of our innovative and unique approach to interior construction as compared to conventional interior construction methods.

We operate in the highly competitive interior construction industry that is constantly developing and changing. We compete against conventional construction firms, individual tradespeople, modular systems, and commercial furniture manufacturers. New market entrants and conventional construction firms are also beginning to develop customizable wall paneling and other modular interior construction solutions, and we expect this trend to continue. In addition, we may face pricing pressure from competitors or new market entrants who take on projects at reduced prices or employ other competitive strategies. While we believe our innovative design, quality, schedule and cost certainty, and network of Construction Partners makes us well-positioned in the market, increasing competition could make it difficult to secure new projects at acceptable operating margins.

Our products are unique and offer an alternative to conventional construction techniques. Although offsite construction methods are gaining market acceptance, this still represents only a fraction of all construction methods and the overall construction market. Our ability to grow and increase market share depends, in part, on our success in continuing to increase demand for modular construction methods and products as an alternative to more traditional construction methods. While we intend to follow a strategy of innovative product development and strategic marketing efforts to enhance our position, there is no assurance that our solutions will attain a degree of market acceptance sufficient for sustained profitable operations. Failure to compete effectively by, among other things, meeting consumer preferences, developing and marketing innovative solutions, maintaining strong client service and distribution relationships, growing market share, and expanding our solutions capabilities could have a material adverse effect on our liquidity, financial condition, or results of operations.

Our co-founders' and former executives' competitive behavior against us could have an adverse effect on our business, financial condition and results of operations.

Our co-founders and former executives, Mogens Smed and Barrie Loberg, have started an interior construction and manufacturing company that we believe competes with us. They, along with a number of our former employees and Construction Partners who have joined their company, have in-depth knowledge about our business, including our customers, employees, products and prospects, and we may be adversely affected by increased competition arising out of this business venture. We are engaged in litigation with Messrs. Smed and Loberg, entities with which they are involved, and other individuals relating to, among other things, enforcement of non-competition and non-solicitation obligations, and alleged misappropriation of proprietary information by them or by us. If Messrs. Smed and Loberg further engage in a competitive business against us or if we are not successful in litigation, our business, financial condition and results of operations may be adversely affected. See Item 3. "Legal Proceedings."

We depend heavily on our network of Construction Partners, and the loss or inattention of our Construction Partners, or the failure of our Construction Partners to meet their obligations to us, could materially and adversely affect our business, financial condition and results of operations.

We currently do not engage in many direct sales projects and rely almost exclusively on our network of Construction Partners to promote brand awareness, sell and market DIRT Solutions, and provide design, installation, distribution and other services to clients on each project. While we are not dependent on any single Construction Partner, sales generated by approximately 10% of our Construction Partners comprised approximately 37% of our total revenues for 2023 (2022 – 39%) with one Construction partner making up approximately 12% of total revenues (2022 - 7%). The loss of any top performing Construction Partners, particularly to our competitors, may negatively affect our sales, financial condition or results of operations. It may further impair our ability to maintain a market presence in a particular geographic region until a new Construction Partner relationship is established, which would require significant time and resources, given DIRT is typically a standalone line of business in their portfolio.

Although we provide our Construction Partners with training, education, and support, they may be unable to successfully sell our DIRT Solutions, execute projects or manage client experiences and relationships. In addition, our Construction Partners and their clients may face financial difficulties or may become insolvent, which could result in the delay or cancellation of their plans to purchase DIRT Solutions or lead to our inability to obtain payment of accounts receivable that they may owe. If we are unable to maintain a successful Construction Partner network, our business, financial condition, and results of operations could be materially and adversely affected.

Increasing attention to environmental, social and governance (ESG) matters and conservation measures may adversely impact our or our customers' business.

Increasing attention to, and societal expectations on companies to address, environmental and social impacts and investor, regulatory and societal expectations regarding voluntary and mandatory ESG-related disclosures may result in increased costs, reduced demand for our customers' products, reduced profits, increased investigations and litigation, negative impacts on our stock price and reduced access to capital markets.

Moreover, while we may publish voluntary disclosures from time to time, certain statements in those voluntary disclosures may be based on hypothetical expectations and assumptions that may or may not be representative of current or actual risks or events or forecasts of expected risks or events, including the costs associated therewith. Mandatory ESG-related disclosure is also emerging as an area where we may be, or may become, subject to required disclosures in certain jurisdictions, and any such mandatory disclosures may similarly necessitate the use of hypothetical, projected or estimated data, some of which is not controlled by us and is inherently subject to imprecision. Disclosures reliant upon such expectations and assumptions are necessarily uncertain and may be prone to error or subject to misinterpretation given the long timelines involved and the lack of an established single approach to identifying, measuring and reporting on many ESG matters. Further, we have announced various voluntary ESG targets in our annual Environmental, Social, and Governance (ESG) report outlining our commitments to sustainability, the environment, health and safety, and diversity and inclusion. However, we cannot guarantee that we will be able to meet such voluntary targets in the manner or on such a timeline as initially contemplated, including, but not limited to, as a result of unforeseen costs or technical difficulties associated with achieving such results. Any actual or perceived failure to meet our ESG targets could adversely impact our reputation and our customers' image of our products and result in the loss of business or impede our growth initiatives. Adverse publicity regarding ESG issues and similar matters, whether or not justified, could have a negative impact on our reputation and may result in the loss of customers and our inability to secure new customer relationships. Further, our customers may be more selective for products that meet their ESG goals or standards, such as increasing demand for goods that result in lower emissions, and our products could be less competitive if we are unable to meet these standards. Despite our efforts to adapt to and address these concerns, our efforts may be insufficient. Additionally, the implementation of these initiatives may increase our costs. It is difficult to predict how our efforts with respect to social and sustainability matters will be evaluated by current and prospective investors or by our customers or business partners. Despite our voluntary actions, we may receive pressure from certain investors, lenders, or other groups to adopt more aggressive ESG-related goals or policies, but we cannot guarantee that we will be able to implement such goals because of potential costs or technical or operational obstacles.

Furthermore, our reputation, as well as our stakeholder relationships, could be adversely impacted as a result of stakeholder perceptions of statements made by us, our employees and executives, agents, or other third parties or public pressures from investors or policy groups to change our policies. Such statements with respect to ESG matters are becoming increasingly subject to heightened scrutiny from public and governmental authorities related to the risk of potential "greenwashing," i.e., misleading information or false claims overstating potential ESG benefits. As a result, we may face increased litigation risks from private parties and governmental authorities related to our ESG efforts. Moreover, any alleged claims of greenwashing against us or others in our industry may lead to negative sentiment. To the extent that we are unable to respond timely and appropriately to any negative publicity, our reputation could be harmed. Damage to our overall reputation could have a negative impact on our financial results and require additional resources to rebuild our reputation. Additionally, to the extent ESG matters negatively impact our reputation, we may not be able to compete as effectively to recruit or retain employees, which may adversely affect our operations. Such ESG matters may also impact our customers, which may result in reduced demand for certain of our products and services.

Risks Relating to Our Products and Software

We may be unsuccessful in designing, introducing, or selling new solutions, solution features, or software, which also may cause us to become less competitive.

As our competitors and others develop new technologies in the future, we may be placed at a competitive disadvantage if we fail to keep pace with technological advancements within our industry. Our future success depends in part on our continuing ability to promote and demonstrate the value of DIRTT Solutions, as well as our ability to develop and sell new solutions, solution features, or software that differentiate our solutions and achieve market acceptance in a timely and cost-effective manner. We incur significant costs associated with our research and development that may not result in increased revenue or demand for DIRTT Solutions and that could negatively affect our results of operations. Rapidly changing technology, evolving regulatory and industry standards, and changing consumer trends, demands, and requirements require us to continuously innovate and develop new, high-quality solutions, solutions features and software. Additionally, such rapid technological changes, standards and preferences could render the complex and proprietary technology of our software and solutions obsolete. We may not be able to implement new technologies on a timely basis or at an acceptable cost. New solutions, solution features, or software may also be less successful than we anticipated, and such offerings may fail to achieve market acceptance. If we fail to respond quickly and cost-effectively to a changing market and changing consumer preferences, our competitive position, financial condition, and results of operations could be adversely affected. Outside of the ongoing evaluation of new construction market sectors, we are considering various partnerships that aide into the advancement and development of the construction industry. This includes diversifying our current prefabricated offerings, aligning with sourcing companies, and establishing initiatives with other companies embracing the mindset of change. While these actions strengthen our stakes in the prefabrication market, we may be unsuccessful in generating revenue through these initiatives.

Our software and products may have design defects, deficiencies, or other unknown risks, and we may incur additional costs to fix any such defects, deficiencies, or other risks, or be subject to warranty or product liability claims.

Our software and solutions are complex and must meet both the technical requirements of our clients and applicable building codes and regulations. Our solutions may contain undetected errors or design and manufacturing defects, and our software may experience quality or reliability problems, or contain bugs or other defects. Software defects may also cause errors in our manufacturing or miscalculations in ordering and pricing, which could lead us to incur losses and perhaps lose market share to competitors. Product or software defects could cause us to incur warranty costs, product liability costs, and repair and remediation costs. Although we maintain warranty reserves based on production, historical claims, and estimates, future warranty claims may exceed our reserves. Similarly, while we maintain insurance of the types and amounts we consider commercially prudent in view of industry practice, such insurance coverage may not be sufficient to protect us against substantial claims. Such claims could be expensive to defend, could divert resources, including the attention of management and other personnel for significant periods, and regardless of the ultimate outcome could result in negative publicity. Increased costs to address product warranty claims or to defend against product liability claims, may result in increased expenses and adversely affect our financial condition or results of operations.

We are subject to fluctuations in the prices of raw materials and commodities, which could adversely affect our liquidity, operating margins and financial condition.

We purchase raw materials, including aluminum, glass, and wood, from a number of local and global suppliers. The costs of these commodities can fluctuate due to changes in global supply and demand, inflation, speculation in commodities futures, and changes in tariffs or trade barriers, which can also interrupt supply. In addition, we have not historically entered into long-term agreements with vendors and may be exposed to short-term and long-term price fluctuations as a result.

Aluminum represents the largest component of our raw materials consumption. We have experienced fluctuations in the price of aluminum and anticipate that these fluctuations will continue in the future. In particular, during 2021 through 2023, we experienced significant price inflation across substantially all of our materials, largely due to pandemic-induced supply chain constraints, and it is unclear whether such price increases will be temporary or permanent in nature. From time to time, the U.S. government has imposed tariffs on steel and aluminum and limited the amounts of steel and aluminum coming into the United States based on the countries of origin of those imports. In 2023, we sourced the majority of our aluminum from North America and sourced under 10% of our raw materials from outside North America. Nonetheless, substantial, prolonged upward trends in aluminum and other commodity prices, along with tariffs and import limitations, could significantly increase our costs and adversely affect our liquidity, operating margins, and financial condition.

We rely on a limited number of outside suppliers for certain key components and materials, and failure or delay in obtaining the necessary components or materials could delay or prevent the manufacturing or distribution of our DIRT Solutions.

We rely on certain key suppliers for raw materials and components, including aluminum, glass, wood, paint, and hardware. We maintain multiple suppliers for key materials, although for the year ended December 31, 2023, (i) one supplier accounted for approximately 61% of our aluminum supply, respectively, and two additional suppliers provided approximately 19% and 18%, respectively (ii) two suppliers accounted for approximately 46% and 44% of our wood supply, (iii) one supplier accounted for approximately 100% of our paint and powder supply, and (iv) one supplier accounted for approximately 42% of our hardware supply.

While we believe there are other vendors for most of our key requirements, certain materials and components meeting our quality standards are available only through a limited number of vendors. If we are required to obtain another source for these materials or components, we may not be able to obtain pricing on as favorable terms or on terms comparable to our competitors. Any failure or delay in obtaining the necessary raw materials or components in the quantities and quality required may result in increased costs and delays in manufacturing or distributing our products, which could have a material adverse effect on our liquidity, financial condition, or results of operations. A vendor may also choose, subject to existing contracts, to modify its relationship with us due to general economic concerns or specific concerns relating to that vendor or us, at any time. These modifications might include additional requirements from our suppliers that we provide them additional security in the form of prepayments or with letters of credit. Any significant change in the terms that we have with our key suppliers could materially and adversely affect our liquidity, financial condition, or results of operations.

Risks Relating to Market Conditions

Global economic, political and social conditions and financial markets, such as the Ukraine and the Israel-Hamas war, may impact our ability to do business and adversely affect our liquidity, financial condition, and results of operations.

Our industry is cyclical and highly sensitive to macroeconomic conditions. Overall declines or reductions in construction and renovation due to economic downturns, unemployment and office vacancies, changing return-to-office trends, difficulties in the financial services sector and credit markets, and imposition of trade barriers can impact the demand for our products. Financial difficulties experienced by our suppliers, Construction Partners or clients could also result in, among other things, inadequate project financing, project delays, inability to pay accounts receivable or disruptions in our supply chain. Any general economic, political, or social conditions that may contribute to financial difficulties experienced by us, our suppliers, Construction Partners, or clients may adversely affect our liquidity, financial condition and results of operations.

We are exposed to currency exchange rates, interest rates, tax rates, and other fluctuations, including those resulting from changes in laws.

Our revenues and expenses are collected and paid in different currencies, including the U.S. dollar and Canadian dollar. Fluctuations in the relative values of any such currency expose us to foreign exchange risk and could have a material and adverse effect on our cash flows, revenues and results of operations. We also have currency exchange exposure to the extent of a mismatch between foreign-currency denominated revenues and expenditures – in particular, where U.S. dollar revenues do not equal U.S. dollar expenditures. We are not currently using exchange rate derivatives to manage currency exchange rate risks. There are currently no significant restrictions on the repatriation of capital and distribution of earnings to foreign entities from any of the jurisdictions in which we operate. There can be no assurance that such restrictions will not be imposed in the future.

Most of DIRTT's debt is on fixed interest rates. The Second Extended RBC Facility (as defined below) is subject to market interest rates. We are not currently using interest rate derivatives to manage interest rate risks. If interest rates rise, this could have a material and adverse effect on our cash flows, revenues and results of operations and may adversely affect our ability to access financing. We are currently undrawn on our Second Extended RBC Facility.

Compliance with new or amended tax laws and regulations could have a material adverse effect on our business. We base our tax positions upon our understanding of the tax laws (including, applicable tax treaties) of the countries in which we have assets or conduct business activities. However, our tax positions are subject to review and possible challenges by taxing authorities, including as to the computation and allocation of income, transfer pricing and other complex issues. This includes adverse changes to the manner in which Canada, the United States and other countries tax local and foreign corporations and interpret or change their tax laws and applicable tax treaties, including in light of the increased focus by the U.S. Congress, the Canadian government, the Organization for Economic Co-operation and Development and other government agencies in jurisdictions where we do business on issues related to the taxation of multinational corporations. We cannot determine in advance the extent to which such jurisdictions may amend their tax laws, review our tax positions, or assess additional taxes or interest and penalties on such taxes. In addition, our effective tax rate may be increased by changes in the valuation of deferred tax assets and liabilities, our cash management strategies, local tax rates, or interpretations of tax laws.

Risks Relating to Intellectual Property and Information Security

We may be unable to maintain, protect or enforce our intellectual property rights, and we may be accused of infringing intellectual property rights of others.

We rely on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect our intellectual property. There is no guarantee that our various contractual rights, patents, copyrights, trademarks and trade secrets will offer sufficient protection of our products and services or prevent misappropriation of our proprietary rights in our products, software or processes. We also may not be granted patents, copyrights registrations or trademark registrations on our pending or proposed applications, and granted applications may be challenged, invalidated or circumvented in the future. Despite our best efforts to maintain and enforce our intellectual property, monitoring unauthorized use of our intellectual property is difficult and costly, and the steps we have taken may not be sufficient to effectively prevent third parties from infringing, misappropriating, diluting or otherwise violating our intellectual property rights. Despite our precautions, it may be possible for unauthorized third parties to use information that we regard as proprietary to create products or services that compete with ours. We enforce our intellectual property rights where appropriate, but the cost of doing so may be substantial and could outweigh the potential benefits, and we may be unsuccessful in our enforcement efforts. Failure to protect or maintain the proprietary nature of our intellectual property could adversely affect our ability to sell original products and adversely affect our business, financial condition and results of operations.

Additionally, our competitors or other third parties may own, or claim to own, intellectual property in technology areas relating to our technology, including ICE Software, manufacturing processes, and DIRT Solutions. Although we do not believe that our software or DIRT Solutions infringe or misappropriate the proprietary rights of any third parties, litigation related to such claims, whether or not meritorious, may subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from assembling certain of our products or licensing certain of our intellectual property, subject us to injunctions restricting our sale of products or services, cause severe disruptions to our operations or the marketplaces in which we compete, or require us to satisfy indemnification commitments with our clients, including contractual provisions under various license arrangements. A damages award against us could include an award of royalties or lost profits and, if a court finds willful infringement, treble damages and attorneys' fees. This may cause us to expend significant costs and resources, and could adversely affect our business, financial condition or results of operations.

If we are unable to protect our information technology systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted and our reputation and profitability could be negatively affected.

In the ordinary course of our business, we generate, collect and store confidential and proprietary information, including intellectual property, business information, and other proprietary information. The secure storage, maintenance, and transmission of, and access to, this information is important to our operations and reputation. We use automated software and hardware solutions to protect our on-premise and cloud infrastructure; conduct routine third-party evaluations and vulnerability testing to identify and mitigate risks; and deploy employee training programs throughout the company. Although we have experienced cyber-based attacks, to our knowledge, we have not experienced any material disruptions or breaches of our information technology systems or platforms. However, there is no guarantee that our security systems, or processes or procedures designed to protect our information technology systems are adequate to safeguard against all cybersecurity risks or human error. Any security breach involving the misuse, loss or other unauthorized disclosure of confidential information of a client, Construction Partner, employee, supplier or Company information could result in financial losses, exposure to litigation and liability (including regulatory liability), damage to our reputation, and disruption to our operations, all of which could have a material adverse effect on our business, financial condition or results of operations. While we maintain commercially prudent cybersecurity insurance consistent with industry practice, such insurance may not be sufficient to cover all losses relating to data loss or an information security breach.

The regulatory environment related to information security, data collection and use, and privacy is complex and continuously evolving and compliance with laws, rules, regulations or other requirements could result in additional costs. The costs associated with information security, such as increased investment in technology, the costs of compliance with privacy laws, and costs incurred to prevent or remediate information security breaches, could be substantial and adversely affect our business. A significant compromise of sensitive employee, Construction Partner, client or supplier data in our possession could result in legal damages and regulatory penalties. In addition, the costs of defending actions, responding to complaints, or remediating breaches could be material.

Damage to our information technology and software systems could impair our ability to effectively provide DIRT Solutions and adversely affect our reputation, relationships with clients, financial condition or results of operations.

Our information technology and software networks and systems, which include the processing, transmission and storage of information, are integrated with our manufacturing processes and are essential to our business operations. These systems are vulnerable to, among other things, damage or interruption from power outages, network failures or natural disasters, loss or corruption of data, human error, employee misconduct and difficulties associated with upgrades, installations of major software or hardware, and integration with new systems. While we maintain retention backups to geo-diverse digital and physical locations and have a recovery data center, the data center and other protective measures we take could prove to be inadequate. Any disruption in our systems or unauthorized disclosure of information could result in delayed manufacturing and delivery of our DIRT Solutions, legal claims, a loss of intellectual property and a disruption in operations, all of which could adversely affect our reputation, relationships with clients, financial condition or results of operations.

Our core intellectual property in the ICE Code is jointly owned with a third party, who may fail to comply with its contractual obligations to protect and enforce our intellectual property rights.

AWI owns a 50% interest in the rights, title and interests in certain intellectual property rights in the Applicable ICE Code, including a 50% interest in the patent rights that relate to the Applicable ICE Code. As part of AWI's purchase of the Applicable ICE Code, AWI must comply with contractual obligations designed to protect the Applicable ICE Code from infringement, misappropriation, misuse or exposure to unauthorized third parties. However, despite our efforts to monitor AWI's actions, we may not become aware of AWI's failure to comply with its obligations or we may not have adequate time to address such failure before there are adverse impacts to our business. Additionally, even if we attempt to require AWI to comply with its obligations to enforce our intellectual property rights, AWI may refuse or may not take adequate steps to do so. AWI's failure to protect or maintain the proprietary nature of the Applicable ICE Code could adversely affect our ability to sell original products or adversely affect our business, financial condition or results of operations.

AWI may fail to meet certain security and non-disclosure obligations designed to prevent our competitors or other unauthorized third parties from accessing the Applicable ICE Code. Despite our efforts to enforce our rights and monitor any inadequacies, we may not have access to AWI's internal security or business practices. Additionally, we may not be successful in preventing AWI from exposing the source code of the Applicable ICE Code to third parties or in protecting our intellectual property rights in the Applicable ICE Code. Any unauthorized access to the Applicable ICE Code in AWI's possession could substantially and adversely affect our business or competitive advantage and management may have to expend significant time and resources to address unauthorized access and disclosure, all of which could have a material adverse effect on our business, financial condition or results of operations.

Risks Relating to Government Regulations and Enforcement

We may incur significant costs complying with environmental, health and safety laws and related claims, and failure to comply with these laws and regulations could expose us to significant liabilities, which could materially adversely affect our business and results of operations.

We are subject to laws, regulations, and other requirements with respect to workers' health and safety and environmental matters in the United States, Canada and other countries in which we operate. Environmental laws and regulations impose, among other things, restrictions, liabilities and obligations in connection with the production, processing, preparation, handling, storage, transportation, disposal and management of wastes and other substances, and the prevention and remediation of environmental effects. Health and safety laws and regulations impose, among other things, requirements designed to ensure the protection of workers. New or more stringent laws and regulations, including those relating to climate change and greenhouse gas emissions, may be adopted in the future and could impact our facilities, raw material suppliers, the transportation and distribution of our solutions, and our clients, which could reduce demand for our solutions or cause us to incur additional operating costs. In addition, certain foreign laws and regulations may affect our ability to export products outside of, or import products into, the United States or Canada. Failure to comply with these requirements may result in civil or criminal liability, damages and fines, and our operations could be curtailed, suspended or shutdown and our reputation, ability to attract employees, and results of operations could be adversely affected. Private lawsuits, including claims for remediation of contamination, personal injury or property damage, or actions by regional, national, state and local regulatory agencies, including enforcement or cost-recovery actions, may materially increase our costs.

These factors may materially increase the amount we must invest to bring our processes into compliance with legal requirements and impose additional expenses on our operations. In addition, any changes in these laws or regulations or changes in our manufacturing processes may require us to request changes to our existing permits or obtain new permits. We may also be unable to obtain or maintain, from time to time, all required environmental regulatory approvals. A delay in obtaining any required environmental regulatory approvals or the failure to obtain and comply with such approvals could materially adversely affect our business and results of operations.

Risks Relating to Financial Results

We have had negative cash flow from operating activities.

We had negative cash flow from operating activities for prior years, including the years ended December 31, 2022 and 2021. Continued negative operating cash flow may compromise our ability to make interest and principal payments on the convertible unsecured subordinated debentures issued on January 25, 2021 and December 1, 2021 (collectively, the "Debentures") on a timely basis, or at all, and to execute our strategic plan. Until we are able to generate positive cash flow from operating activities over a sustained period, our ability to finance our operations will be dependent on our cash reserves and available credit facilities and, if required, our ability to obtain additional external financing. Although we had \$14.8 million in cash provided from operating activities for the year ended December 31, 2023, and we anticipate we will have positive cash flow from operating activities over at least the next twelve months, we cannot guarantee that such future cash flow will be sufficient, or other changes to our circumstances will not necessitate additional financial resources to fund our operating activities.

We have undertaken various actions to improve our cash flow and balance sheet in the short term, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources". Although we anticipate these actions will strengthen our balance sheet and liquidity position, we cannot guarantee that such future cash flow will be sufficient or other changes to our circumstances will not necessitate additional financial resources to fund our operating activities.

We have experienced a history of losses, and despite certain periods of profitability in recent years, we may not be able to generate sufficient revenue to achieve and sustain profitability.

We have incurred significant losses since commencing business. We incurred net losses after tax of \$14.6 million, \$55.0 million and \$53.7 million for the years ended December 31, 2023, 2022 and 2021, respectively. As at December 31, 2023, we had an accumulated deficit of \$180.9 million. These losses and accumulated deficits were due in part to the substantial investments made to grow our business and acquire clients, to further develop our service offerings through product and software development, to ensure that we have sufficient production capacity and capability to deliver on our commitment of rapid delivery times and to preserve our production, innovation and commercial capabilities through the economic disruption caused by the global COVID-19 pandemic in anticipation of an increase in construction activity as the pandemic impacts abated. Past results may not be indicative of our future performance, and there can be no assurance that we will generate net income in the future.

We have experienced, and may experience in the future, quarterly and yearly fluctuations in results of operations and financial condition.

Our results of operations and financial condition may continue to fluctuate from one quarter or year to another due to a number of factors, some of which are outside of our control. For example, we usually experience seasonal slowdowns in the first and fourth quarters of each calendar year, leading to stronger sales in the second half of the year versus the first half, and weather conditions may also delay delivery and installation on some projects. Furthermore, sales that we anticipate in one quarter may be pushed into another quarter, affecting both quarters' results, and our actual or projected results of operations may fail to match our past performance. These events could in turn cause the market price of our common shares to fluctuate. In particular, if our results of operations do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical results of operations, the market price of our common shares will likely decline. Due to our high fixed manufacturing costs and operating expenses, quarterly volatility in sales volumes could result in periods of low operating cash flow and negatively affect our liquidity. Due to these risk factors, quarter-to-quarter or year-to-year comparisons of our results of operations may not be an indicator of future performance.

We have recognized, and may recognize in the future, impairment charges for our goodwill and certain other non-current assets.

During the year ended December 31, 2021, we impaired the \$1.4 million net carrying value of goodwill on our consolidated balance sheet. Significant negative industry or economic trends, disruptions to our business, planned or unexpected significant changes in the use of the assets, and sustained market capitalization declines may result in the impairment of non-current assets. In 2022 and 2021, we had an indicator of impairment for our non-current assets. In 2023, we announced our intention to close the Rock Hill Facility, which resulted in an impairment charge on the reclassification of assets held for use to assets held for sale. As at December 31, 2023, we did not have any impairment indicators for our non-current assets. Any further charges relating to impairments could have a material adverse impact on our consolidated statement of operations in the period in which the impairment is recognized.

Risks Related to Our Common Shares and Corporate Structure

Our share price has been and may continue to be volatile, which could cause the value of your investment to decline.

Our common shares are listed on the TSX under the symbol "DRT" and are quoted on the OTC under the symbol "DRTTF." The price of our common shares has in the past fluctuated significantly, and may fluctuate significantly in the future, depending upon a number of factors, many of which are beyond our control and may adversely affect the market price of our common shares. These factors include: (i) variations in quarterly results of operations; (ii) deviations in our earnings from publicly disclosed forward-looking guidance; (iii) changes in earnings estimates by analysts; (iv) our announcements or our competitors' announcements of significant contracts, acquisitions, strategic partnerships or joint ventures; (v) general conditions in the offsite construction and manufacturing industries; (vi) sales of our common shares by our significant shareholders; (vii) fluctuations in stock market price and volume; and (viii) other general economic conditions.

In the past, following periods of volatility in the trading price of a company's securities, securities class action litigation has been brought against that company. If our share price is volatile, we may become the target of securities litigation in both the United States and Canada. Securities litigation could result in substantial costs and divert management's attention and resources from our business and could have an adverse effect on our business, financial condition and results of operations.

Our common shares are quoted on the OTC's Pink Tier, and there may be a limited trading market in the Company's common shares in the United States. As a result of the limited trading market, investors may experience limited liquidity, and may experience limited ability to sell shares in the open market.

Our common shares are quoted on the OTC's Pink Tier under the symbol "DRTTF." There may be a limited trading market in the Company's common shares in the United States. As a result of the limited trading market of our common shares, investors in our common shares may experience limited demand for their common shares, which may limit their ability to sell their shares in the open market.

We are governed by the corporate laws of Alberta, Canada, which in some cases have a different effect on shareholders than the corporate laws of the United States.

We are governed by the ABCA and other relevant laws, which may affect the rights of shareholders differently than those of a company governed by the laws of a U.S. jurisdiction, and may, together with our charter documents, have the effect of delaying, deterring or discouraging another party from acquiring control of our company by means of a tender offer, a proxy contest or otherwise, or may affect the price an acquiring party would be willing to offer in such an instance. The material differences between the ABCA and Delaware General Corporation Law ("DGCL"), that may have the greatest such effect include, but are not limited to, the following: (i) for certain extraordinary corporate transactions (such as amalgamations or amendments to our articles), the ABCA generally requires the voting threshold to be a special resolution passed by not less than two-thirds of the votes cast by the shareholders who voted in respect of the resolution, whereas DGCL generally only requires a majority vote; and (ii) under the ABCA, registered holders or beneficial owners (as defined in the ABCA) of not less than 5% of our common shares in aggregate can requisition our directors to call a special meeting of shareholders, whereas such right does not exist under the DGCL. We cannot predict whether investors will find our company and our common shares less attractive because we are governed by the corporate laws of Alberta, Canada.

We will cease to be an "emerging growth company," as defined in the Jumpstart Our Business Startups Act enacted in April 2012, no later than December 31, 2024.

On December 31, 2024, we will cease to be an emerging growth company. Once we cease to be an emerging growth company, we may be required to have our independent registered public accounting firm attest to the effectiveness of our internal controls if no other exemptions to such requirements apply. Once it is required to do so, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed, operated or reviewed. Compliance with these requirements may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

Additionally, if our independent registered public accounting firm is required to express an opinion on the effectiveness of our controls when we cease to be an emerging growth company, we may be unable to confirm that our internal control over financial reporting is effective. If that is the case, or if our independent registered public accounting firm is unable to express an unqualified opinion on the effectiveness of our controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common shares to decline.

Our two largest shareholders are able to exercise a significant amount of control over the Company due to their significant ownership of our common shares, and their interests may conflict with or differ from the interests of our other shareholders.

As of February 16, 2024, 22NW Fund, LP and Aron English (collectively, the "22NW Group") and WWT Opportunity #1 LLC ("WWT") each owned 30.1% and 27.9% of our common shares, respectively, together beneficially owning approximately 58.0% of our common shares. Shaun Noll is the Managing Member of WWT. In addition to the common shares, the 22NW Group owns C\$18,915,000 principal amount of our January Debentures (as defined below) and C\$13,638,000 principal amount of our December Debentures (as defined below). Both the January Debentures and the December Debentures are convertible into common shares in accordance with the terms thereof. Thus, the 22NW Group could further increase its ownership in the Company through the conversion of its January Debentures or December Debentures into common shares.

So long as the 22NW Group and WWT and their respective affiliates continue to directly or indirectly own a significant amount of our common shares, they will be able to exercise a significant level of control over all matters requiring shareholder approval, including the election of directors, amendments to our amended and restated articles of amalgamation, and approval of significant corporate transactions, barring any requirement for such shareholder to recuse itself from any such vote pursuant to applicable securities law, corporate law or the rules and regulations of any applicable stock exchanges. Further, affiliates of the 22NW Group and WWT also serve as directors on the Company's Board of Directors. This control could have the effect of delaying or preventing a change of control of the Company or changes in management and would make the approval of certain transactions difficult or impossible without the support of these shareholders. Additionally, the perception that these shareholders would have the ability to control or significantly influence the Company could cause our common shares to be less attractive to certain investors or otherwise result in a decline in the trading price of our common shares. To the Company's knowledge, the 22NW Group and the WWT are not acting in concert and do not constitute a "group" (as defined in Section 13(d)(3) of the Exchange Act).

Since the 22NW Group and WWT each exercise a significant amount of control over the Company due to their significant ownership of our common shares, if the 22NW Group and WWT were to disagree about key decisions with respect to the Company we may not be able to effectively address challenges facing our business, which could adversely affect our business, financial condition or results of operations.

Because we are a corporation incorporated in Alberta and some of our directors and officers are residents of Canada, it may be difficult for investors in the United States to enforce civil liabilities against us or our directors and officers based solely upon the federal securities laws of the United States. Similarly, it may be difficult for Canadian investors to enforce civil liabilities against our directors and officers residing outside of Canada.

We are a corporation amalgamated and existing under the laws of Alberta with our principal place of business in Calgary, Alberta, Canada. Some of our directors and officers are residents of Canada and a substantial portion of our assets and those of such persons are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon us or our directors or officers who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the Securities Act of 1933. Investors should not assume that Canadian courts: (i) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or blue sky laws of any state within the United States or (ii) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or any such state securities or blue sky laws.

Similarly, some of our directors and officers are residents of countries other than Canada and all or a substantial portion of the assets of such persons are located outside Canada. As a result, it may be difficult for Canadian investors to initiate a lawsuit within Canada against these non-Canadian residents. In addition, it may not be possible for Canadian investors to collect from these non-Canadian residents judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. It may also be difficult for Canadian investors to succeed in a lawsuit in the United States, based solely on violations of federal, provincial or territorial securities laws.

General Risks

Difficulties in recruiting and retaining qualified officers or employees, or experiencing labor shortages or disruptions, could have a material adverse effect on our business and results of operations.

Our success will depend in part on our ability to attract, develop, and retain qualified personnel as needed. We have undergone significant changes at a senior management level during recent years as discussed elsewhere in this Annual Report. Although we anticipate smooth transitions, any changes to members of our senior management may be disruptive to our operations, including by diverting our Board of Directors' and management's time and attention and a decline in employee morale. If there are any delays in this process, our business could be negatively impacted. We may be affected by labor shortages or disruptions, particularly in locations where we operate manufacturing facilities. If we fail to attract or retain qualified personnel, or experience labor shortages or disruptions, we could incur higher recruiting expenses, a loss of manufacturing capabilities, or inability to respond to significant increases in demand, all of which could have a material adverse effect on our business and results of operations.

We may have additional capital needs in the future and may not be able to obtain additional capital or financing on acceptable terms.

We plan to continually invest in business growth and may require additional funds to respond to business opportunities, such as expanding our sales and marketing activities, developing new software, acquiring complementary businesses, products or technology, and expanding or enhancing our manufacturing capabilities, including factory automation. To the extent that our existing capital is insufficient to meet our requirements, we may need to undertake equity or debt financings to secure additional funds. Further issuances of equity or convertible debt securities may result in significant share dilution. Additional new equity securities issued could have rights, preferences and privileges superior to those of our currently issued and outstanding common shares. Additional debt financings may involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. We cannot provide any assurance that sufficient debt or equity financing will be available for necessary or desirable expenditures or acquisitions, or to cover losses, and accordingly, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our liquidity could be materially and adversely affected.

We may engage in future mergers, acquisitions, agreements, consolidations, or other corporate transactions that could adversely affect our business, financial condition, and results of operations.

While we currently have no specific plans to acquire any businesses, we may, in the future, seek to expand our business and capabilities through acquiring compatible technology, products or businesses. Additionally, we may explore other corporate transactions, including mergers, agreements, consolidations, or joint ventures, that we believe may be beneficial to our business or further specific business goals. Acquisitions involve certain risks and uncertainties, including, among other things, (i) difficulty integrating the newly acquired businesses and operations in an efficient and cost-effective manner; (ii) inability to maintain relationships with key clients, vendors and other business partners of the acquired businesses; (iii) potential loss of key employees of the acquired businesses; (iv) exposure to litigation or other claims in connection with our assumption of certain claims and liabilities of the acquired businesses; (v) diversion of management's time and focus; and (vi) possible write-offs or impairment charges related to the acquired businesses. The occurrence of any of these risks could adversely affect our business, financial condition, and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

The security of our information technology systems and Company data is important to our operations and reputation. Accordingly, we are committed to identifying and managing cybersecurity risks. Our Cybersecurity team performs periodic risk assessments and, on a quarterly basis, provides to our Enterprise Risk Management Committee ("ERM") information related to the Company's cybersecurity, including statistics on attempted cyber-attacks, status of employee information security training awareness, and information on any security investigations. The Cybersecurity team advises the ERM of significant global cyber events that occurred during the quarter and whether they impacted DIRTT. The Cybersecurity team regularly discusses with the ERM the Company's cybersecurity posture and whether the Company should implement additional protections and controls to assist the Company in protecting, responding to, or mitigating potential future cyber-attacks.

DIRTT has developed and implemented a cybersecurity risk management strategy which consists of 5 phases: Identify, Protect, Detect, Respond, and Recover. Each phase has multiple processes and technologies supporting those processes.

Identify

Identification processes at DIRTT include: system asset identification, threat identification, vulnerability identification and maintaining cybersecurity policies and standards.

Protect

Protection processes at DIRTT include: cyber awareness training, cyber awareness assessment (each employee is assigned a cybersecurity awareness grade calculated by a best in class cybersecurity vendor), implementation of identity and access controls, perimeter and endpoint security, annual vulnerability assessments and remediation, data encryption in transit, key vendor (third parties) control effectiveness assessment, and pre-implementation of software and systems cybersecurity assessments.

Detect

Detection processes at DIRTT include: automated event collection, collation, analysis, alerting and end user incident reporting.

Respond

Respond processes at DIRTT include: containment, communication, investigation and analysis, and long-term mitigation planning.

Recover

Recovery processes at DIRTT include: impact identification and analysis, system restoration, internal and external communications as deemed necessary.

DIRTT engages external assessors annually for specific controls, to assess and provide assurance on the health of DIRTT's cybersecurity posture and controls.

DIRTT's Senior Vice President ("SVP") of Technology, who reports to the CEO, is responsible for DIRTT's cybersecurity and has over 15 years of technology experience. The SVP of Technology is supported by dedicated Cybersecurity staff and Governance, Risk and Compliance ("GRC") staff. DIRTT's cybersecurity team leader has over 20 years of experience in cybersecurity, multiple industry standard cybersecurity certifications, and extensive offensive and defensive cybersecurity tactical skills. DIRTT's GRC lead has over 20 years of GRC experience and industry standard certifications. Cybersecurity incidents, response and remediation activities and statuses are reported directly to the SVP of Technology.

The ERM of the Board of Directors oversees risks resulting from cybersecurity threats. DIRTT's management, represented by the SVP of Technology, is responsible for identifying, assessing, and managing risks arising from cybersecurity threats. Quarterly, DIRTT's SVP of Technology reports to the ERM on the health of DIRTT's cybersecurity, incidents, and emerging threats and vulnerabilities that may impact the Company.

As of the date of this Annual Report, the Company has not identified any cybersecurity incidents that have materially affected or are reasonably likely to materially affect the Company's results of operations and/or financial condition. See "Item 1A. Risk Factors" for additional information about cybersecurity risk.

Item 2. Properties.

Our principal executive offices are located in Calgary, Alberta, where we lease approximately 73,000 square feet of office and manufacturing space. Our lease expires in September 2027. Our principal manufacturing facilities are currently located in Calgary, Alberta; and Savannah, Georgia. On February 22, 2022, we announced our intention to close the Phoenix manufacturing facility and DXC. On September 27, 2023, we announced our intention to permanently close the Rock Hill Facility, as discussed in Item 1. "Business" in this Annual Report.

Our wall surfaces (which we call panels), casework and timber solutions are manufactured in Calgary, while aluminum, glass and power components are manufactured in Calgary and Savannah. In Calgary, we lease an aggregate of approximately 400,000 square feet of manufacturing space across four facilities (excluding our principal offices), which leases expire in January 2026, January 2027, September 2027, and January 2034. In Phoenix, we lease approximately 130,000 square feet of manufacturing space across two facilities, which leases expire in March 2027. We are currently utilizing the Phoenix space as a storage facility and have subleased the remaining premises. In Savannah, we lease approximately 81,000 square feet of manufacturing space, which lease expires in February 2029. In October 2019, we entered into a fifteen-year lease, which DIRTT may extend for two additional five-year periods at its option, for a panel factory of approximately 130,000 square feet in Rock Hill, South Carolina. Should the need arise, we have the expansion rights to lease an additional 130,000 square feet of space. We are pursuing options to sublease this area following the September 27, 2023, announcement of our intention to permanently close operations at this location and do not plan to exercise the additional five-year extension period. In March 2020, we entered into an eight-year lease, which DIRTT may extend an additional five years at its option, of approximately 18,000 square feet of space for a DXC in Dallas, Texas. During March 2023, we entered into an agreement to sublease our DXC in Dallas to one of our Construction Partners in that region, from April 1, 2023, through December 31, 2024.

In New York City, New York, we lease approximately 4,100 square feet of space to operate a DXC; this lease expires in February 2024. In Chicago, Illinois, we own approximately 6,200 square feet of office space, which we use to operate a DXC.

Through distributed manufacturing, we can shift production of some components among our manufacturing sites, reduce transportation times and costs, and meet targeted lead times. We believe that our current and planned facilities are adequate for our current needs and that suitable additional or substitute space would be available if needed.

Item 3. Legal Proceedings.

DIRTT is pursuing multiple lawsuits against its founders, Mogens Smed and Barrie Loberg, as well as Falkbuilt Ltd. and Falkbuilt, Inc. (collectively, "Falkbuilt") and related individuals and corporations. DIRTT alleges breaches of fiduciary duties and non-competition and non-solicitation covenants, and the misappropriation of its confidential and proprietary information (in violation of numerous U.S. state and federal laws pertaining to the protection of 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 for the year ended December 31, 2022.

DIRTT's litigation against Falkbuilt, Messrs. Smed and Loberg, and their associates is comprised of three main lawsuits: (i) an action in the Alberta Court of King's Bench commenced on May 9, 2019 against Falkbuilt, Messrs. Smed and Loberg, and several other former DIRTT employees alleging breaches of restrictive covenants, fiduciary duties, and duties of loyalty, fidelity and confidentiality, and the misappropriation of DIRTT's confidential information (the "Canadian Non-Compete Case"); (ii) an action in the U.S. District Court for the Northern District of Utah instituted on December 11, 2019 against Falkbuilt, Smed, and other individual and corporate defendants alleging misappropriation of DIRTT's confidential information, trade secrets, business intelligence and customer information (the "Utah Misappropriation Case"); and (iii) an action in the U.S. District Court for the Northern District of Texas instituted on June 24, 2021 alleging that Falkbuilt has unlawfully used DIRTT's confidential information in the United States and intentionally caused confusion in the United States in an attempt to steal customers, opportunities, and business intelligence, with the aim of establishing a competing business in the United States market (the "Texas Unfair Competition Case"). DIRTT intends to pursue the cases vigorously. We recently requested the Court of King's Bench of Alberta to schedule the summary judgment application for our Canadian litigation. The court has proposed three potential dates in September 2025 and we expect to have the date finalized in the next several weeks.

In the Canadian Non-Compete Case, on February 14, 2023, the Court of King's Bench of Alberta granted DIRTT's application to schedule the hearing of its summary judgment application and dismissed Falkbuilt's cross-application to strike the summary judgment application. DIRTT is aggressively pursuing its summary judgment application.

In the Utah Misappropriation Case, on April 11, 2023, the United States Court of Appeals for the Tenth Circuit reversed the U.S. District Court for the Northern District of Utah's decision that Utah was an inconvenient forum for DIRTT's claims against Falkbuilt and others for the misappropriation of confidential information, trade secrets, business intelligence and customer information. The Utah Court had previously, and erroneously, found that DIRTT's United States-based claims should be litigated in Canada. The Court of Appeals remanded the matter back to the Utah District Court. Falkbuilt filed motions to stay the Tenth Circuit decision pending its petition for a Writ of Certiorari to the Supreme Court of the United States. The Court of Appeals promptly denied the motion to stay. A similar motion subsequently filed with the Supreme Court of the United States on the same basis was also promptly denied. Falkbuilt also petitioned the Supreme Court to accept review, even after losing the stay motion, which petition was also denied in early October 2023. As a result of these appellate orders, the Utah federal trial court assumed jurisdiction over the pending claims. The Utah judge who issued the erroneous order dismissing DIRTT's claims recused himself and the newly assigned judge reaffirmed all prior orders. As such, the case is resumed in the posture it was when the appeals began but with a different Judge.

The Texas Unfair Competition Case was dismissed in March 2022, without prejudice, in reliance upon the now-reversed decision in the Utah Misappropriation Case, described above. DIRTT appealed that decision, and the United States Court of Appeals for the Fifth Circuit stayed the appeal pending the Tenth Circuit ruling at Falkbuilt's request. After prevailing in the Tenth Circuit, DIRTT asked Falkbuilt if it would, consistent with its prior representations, agree to remand the appeal to the Texas Court for disposition to Utah. Falkbuilt refused and DIRTT filed a Motion to Remand. The Court denied the Motion for Remand without prejudice and asked for full briefing. Argument proceeded on December 7, 2023 in New Orleans. The Court will either order the claims transferred to Utah or, if it affirms the lower court, those claims would proceed, inconveniently, in Canada. We believe it is very unlikely the claims would proceed in Texas as neither DIRTT or Falkbuilt currently desires that outcome.

Prior to the argument, DIRTT sought leave to amend the Utah claims to include the Texas claims and notified the Fifth Circuit Court of Appeals of the proposed amendment in Utah. Falkbuilt did not object to the amendment, but answered the Complaint and reserved the right to dismiss the Amended Complaint on grounds of inconvenient forum or international comity. The Amended Complaint not only presents the Texas claims in Utah but also updates DIRTT's allegations as to events and damages incurred during the time the parties were participating in the appellate process.

On February 4, 2024, the Company entered into a Litigation Funding Agreement with a third party for the funding of up to \$4.0 million of litigation costs in respect of specific claims against Falkbuilt, Inc., Falkbuilt Ltd. and Henderson. In return, the Company has agreed to pay from any proceeds received from the settlement of such claims, a reimbursement of funded amounts plus diligence and underwriting costs, plus a multiple of such funded amount based on certain milestones. For additional information, please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources".

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information; Holders of Record

Our common shares are traded on the TSX under the symbol “DRT” and are quoted on the OTC Markets on the “OTC Pink Tier” under the symbol “DRTTF”. Quotations of our common shares on the OTC Pink Tier reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

As of February 16, 2024, there were 191,110,385 common shares outstanding and 158 shareholders of record.

Dividends

We have not declared or paid any cash dividends on our common shares to date. The declaration and payment of dividends is at the discretion of the Board of Directors, taking into account (i) our earnings, capital requirements and financial condition, (ii) restrictions on our ability to pay dividends under the Second Extended RBC Facility, and (iii) such other factors as the Board of Directors considers relevant. The Second Extended RBC Facility generally limits our ability to pay any dividends or make any other distribution on our outstanding common shares. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Credit Facility” for more information. If and when our Board of Directors declares cash dividends on our common shares, such dividends may be declared and paid in either U.S. dollars or Canadian dollars.

Recent Sales of Unregistered Securities

None.

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations for the fiscal years ended December 31, 2023 and 2022 together with our consolidated financial statements and related notes and other financial information appearing in this Annual Report. The 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 “Special Note Regarding Forward-Looking Statements” appearing elsewhere in the Annual Report.

Summary of Financial Results

DIRTT Environmental Solutions Ltd. and its subsidiary (“DIRTT”, the “Company”, “we” or “our”) is a leader in industrialized construction for interior spaces. DIRTT’s system of physical products and digital tools empowers organizations, together with construction and design leaders, to build high-performing, adaptable, interior environments. Operating in the workplace, healthcare, education, and public sector markets, DIRTT’s system provides total design freedom, and greater certainty in cost, schedule, and outcomes.

DIRTT’s proprietary design integration software, ICE® (“ICE” or “ICE software”), translates the vision of architects and designers into a 3D model that also acts as manufacturing information. ICE is also licensed to unrelated companies and Construction Partners of the Company. As of May 9, 2023, AWI owns a 50% interest in the rights, title and interest in certain intellectual property rights in the Applicable ICE Code, including a 50% interest in the patent rights that relate to the Applicable ICE Code.

Key Fourth Quarter 2023 Highlights

- Revenues for the fourth quarter of 2023 were \$50.9 million, an increase of \$8.5 million or 20% from \$42.4 million for the same period in 2022. The fourth quarter of 2023 benefited from several large projects compared to the fourth quarter of 2022.
- Gross profit and gross profit margin for the fourth quarter of 2023 was \$19.2 million or 37.8% of revenue, an increase from \$11.6 million or 27.3% of revenue for the same period of 2022.
- Adjusted Gross Profit and Adjusted Gross Profit Margin (see “– Non-GAAP Financial Measures”) for the fourth quarter of 2023 was \$20.1 million or 39.5% of revenue. This represents an improvement from \$13.6 million or 32.0% of revenue in the fourth quarter of 2022. The increase in Adjusted Gross Profit and Adjusted Gross Profit Margin compared to the comparative quarter is due to having better leverage over fixed costs through price increases and reorganization initiatives, which have been designed to align our cost structure with current expected levels of demand.
- Net income after tax for the fourth quarter of 2023 was \$1.0 million compared to a \$5.9 million net loss after tax for the same period of 2022. The increase in net income is primarily the result of the higher gross profit margin, explained above, of \$7.6 million. Other items that impacted net income in the period included a \$1.5 million increase in operating expenses (includes a \$1.0 million reduction in reorganization expenses and a decrease in the fair value less costs to sell related to the Rock Hill Facility assets held for sale, which resulted in an additional \$0.8 million impairment charge), receipt of \$1.0 million on the sale of software due to the completion of the knowledge transfer to AWI, and a \$0.2 million increase in interest income. These increases were offset by a \$0.2 million increase in the foreign exchange loss, a \$0.1 million increase in interest expense, and a \$0.3 million increase in tax expense.
- Adjusted EBITDA (see “– Non-GAAP Financial Measures”) for the fourth quarter of 2023 was \$4.3 million or 8.5% of revenue, an improvement of \$3.7 million from \$0.6 million or 1.4% of revenue for the fourth quarter of 2022.
- The Company generated approximately \$10.1 million of cash through operations in the fourth quarter of 2023 compared to \$3.2 million in the same period of 2022. During the fourth quarter of 2023, the Company received \$1.0 million on the sale of software to offset cash used for investing activities and repaid outstanding equipment leases related to the Rock Hill Facility of \$7.8 million.
- On November 21, 2023, we announced the Rights Offering (as defined herein) to our common shareholders. The Rights Offering closed on January 9, 2024 with gross proceeds of C\$30.0 million.

Key Annual 2023 Highlights

- Revenues for the year ended December 31, 2023, were \$181.9 million, an increase of \$9.8 million or 6% from \$172.2 million for the year ended December 31, 2022, driven primarily by the pricing actions over the past two years.
- Gross profit and gross profit margin for the year ended December 31, 2023, was \$59.5 million or 32.7% of revenue, an increase from \$28.2 million or 16.4% of revenue for the year ended December 31, 2022.
- Adjusted Gross Profit (see “– Non-GAAP Financial Measures”) for the year ended December 31, 2023, was \$65.1 million or 35.8% of revenue, an increase from \$38.9 million or 22.6% of revenue for the year ended December 31, 2022. Adjusted Gross Profit Margin (see “– Non-GAAP Financial Measures”) for the year ended December 31, 2023, was 35.8%, a 13% improvement from 22.6% for the year ended December 31, 2022. The improved Adjusted Gross Profit and Adjusted Gross Profit Margin is due to having better leverage over fixed costs through price increases and reduced fixed costs. Product cost of sales in 2023 included \$2.0 million of idle facility costs related to the Rock Hill Facility (\$0.5 million in the year ended December 31, 2022). We are pursuing options to sublease the Rock Hill Facility to offset these costs in 2024 and beyond.
- Management has taken steps to align our manufacturing footprint and salaried workforce with our current activity levels as well as cost reduction and profitability initiatives. During the third quarter of 2023, we announced the intention to permanently close the Rock Hill Facility. With annual production capacity at DIRTT facilities in Savannah, Georgia and Calgary, Alberta, of approximately \$400 million in annual revenue, the closure is part of DIRTT’s ongoing focus on realigning the organization, increasing efficiency, and improving profitability. Non-cash impairment charges related to the Rock Hill Facility equipment of \$8.7 million has been recorded in the year ended December 31, 2023. During the fourth quarter, we initiated the process to move certain equipment to our Calgary Facility and sell various other assets at the Rock Hill Facility. We expect to receive \$1.6 million for the sale of the assets in the next 12 months.
- On May 9, 2023, we entered into the Co-Ownership Agreement and Partial Patent Assignment Agreement with AWI. We concurrently entered into the Amended and Restated Master Services Agreement (the “ARMSA”) with AWI, under which AWI has also prepaid certain development services to be provided by DIRTT. Through these arrangements, we received \$12.8 million of cash and recognized a gain on the sale of software and patents of \$7.1 million during the year ended December 31, 2023.
- Net loss after tax for the year ended December 31, 2023, was \$14.6 million compared to \$55.0 million for the year ended December 31, 2022. The decrease in net loss is primarily the result of the above noted increase in gross profit of \$31.4 million. Other items that decreased the net loss in 2023 included a \$11.1 million decrease in operating expenses (which includes an \$8.7 million impairment charge and \$1.5 million of related party expense in the current year), a \$7.1 million gain on software sale, \$0.4 million increase in interest income and a \$0.2 million decrease in interest expense. These increases were offset by a \$7.5 million decrease in government subsidies, a \$2.1 million decrease in foreign exchange, and a \$0.3 million increase in income tax expense.
- Adjusted EBITDA (see “– Non-GAAP Financial Measures”) for the year ended December 31, 2023 was \$7.9 million or 4.4% of revenue, an improvement of \$34.1 million from a \$26.2 million loss or (15.2)% of revenue for the year ended December 31, 2022, for the above noted reasons.

Pipeline

In the first quarter of 2023, we changed our methodology for calculating and disclosing our forward twelve month pipeline. We are now disclosing qualified leads, defined as quantity of projects being pursued, and our pipeline, defined as working with an engaged client on assessment of DIRTT as a prefabricated interior solution provider. We began using these new measures as we believe they better measure expected near term performance given that our operating environment has been prone to change due to macroeconomic factors such as worksite labor availability, interest rate changes, and potential recessionary impacts on construction projects.

As of January 1, 2024, our twelve-month forward pipeline has grown 9.5% year-over-year and has contracted 4.6% since the previous quarter. We are focused on refilling our pipeline after achieving above trend revenue in the fourth quarter of 2023.

We continue to focus on pipeline and forecasting integrity as our ten-day lead time is one of DIRTT’s key value propositions. The ability to produce and ship products in that time frame requires close attention to sales & operational planning.

	As at				
	January 1, 2024	January 1, 2023	% Change	October 1, 2023	% Change
Twelve Month Forward Pipeline (\$ 000s)					
Commercial	176,789	141,293	25%	192,773	(8%)
Healthcare	41,221	55,719	(26%)	39,230	5%
Government	34,813	32,313	8%	34,866	(0%)
Education	17,117	17,201	(0%)	16,235	5%
	269,940	246,526	9%	283,104	(5%)
Leads (#)	861	721	19%	999	(14%)

Our Commercial segment continues to benefit from post-COVID return-to-office policies in addition to focusing our strategy on premium quality products for large corporations. Due to the success of our Healthcare segment in 2023 and the long sales cycle inherent in Healthcare construction, our pipeline has contracted since the beginning of the year, but continues to grow from our previous quarter.

Our Government and Education segments continue to provide stability and diversity to our revenues from our more volatile segments. We are closely monitoring the U.S. Federal Government's budgeting process and the impact it may have on our revenue levels.

Outlook

We achieved an annual revenue of \$181.9 million, a 6% increase over 2022 revenue of \$172.2 million. We are pleased to report another consecutive year of revenue growth since the COVID-19 pandemic, and despite the volatility in the tech and banking sectors in early 2023. Our revenue for the fourth quarter of 2023 was the highest quarterly revenue since 2019.

During 2023, we built on our successes in 2022 with further balance sheet improvement (\$24.7 million vs. \$10.8 million cash and cash equivalents at year end), expansion of our Gross Profit Margin (32.7% vs. 16.4%) and Adjusted Gross Profit Margins (35.8% vs. 22.6%), reductions of our net loss after tax from \$(55.0) million to \$(14.6) million and expansion of our Adjusted EBITDA Margins (4.4% vs. (15.2%)). In 2023, we saw macroeconomic factors stabilize our supply chains and input costs. Our focus on sales and operational planning as well as process efficiencies allowed us to achieve significant improvement in our adjusted gross margins. These actions also led to reductions in labor and inventory carrying costs during 2023. Further, we reduced expenses in our back office and general and administrative overhead to levels commensurate with our current and expected revenue levels.

In the year ahead, we anticipate continued pipeline and revenue growth, but we also remain cautious about macroeconomic uncertainty and remain focused on preparing the Company for a variety of economic scenarios. The unprecedented pace of the US Federal Reserve's interest rate hikes as well as geopolitical volatility in the Middle East and Asian Pacific have encouraged us to pay close attention to our fixed cost footprint and supply chain resiliency. The upcoming presidential election in the United States adds to this uncertainty and may impact the capital expenditure budgets of our clients. As noted in last quarter's outlook, the first quarter of the year is typically our seasonally slowest quarter.

As post-pandemic workplaces continue to evolve, the ability of DIRTT's solutions to anticipate and respond to an uncertain future is at the core of our value proposition. Encouraging access to our full product offering unlocks workplace transformations with more flexible and adaptable environments. Our sustainable product offerings, featuring low carbon footprint, high recycled content, and minimal waste, also enable our Commercial, Government, Healthcare, and Education clients to make meaningful progress toward their environmental commitments and goals.

On January 9, 2024 we successfully closed a C\$30 million Rights Offering. As previously disclosed, we expect to use the proceeds of the Rights Offering for general corporate purposes, which may include investments in our business, funding potential future cash needs or operating losses, funding working capital and capital expenditure needs, or reductions to our outstanding indebtedness. We plan to use some of the funds to invest in our commercial business in all verticals, especially Healthcare, and are looking at additional opportunities and partnerships to support our revenue growth.

In line with our objectives for the Rights Offering, on February 15, 2024, we announced a Substantial Issuer Bid for our convertible debentures of C\$15 million, intended to strengthen our balance sheet by reducing debt. For additional information, please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Non-GAAP Financial Measures

Note Regarding Use of Non-GAAP Financial Measures

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“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 Annual 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, one-time non-recurring charges or gains (such as gain on sale of software and patents), 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 expenses, foreign exchange gains and losses and impairment charges 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 Annual Report, and a description of the calculation for each measure is included.

Adjusted Gross Profit	Gross profit before deductions for depreciation and amortization
Adjusted Gross Profit Margin	Adjusted Gross Profit divided by revenue
EBITDA	Net income before interest, taxes, depreciation and amortization
Adjusted EBITDA	EBITDA adjusted to remove foreign exchange gains or losses; impairment charges; reorganization expenses; stock-based compensation expense; government subsidies; one-time, non-recurring charges and gains; and any other non-core gains or losses
Adjusted EBITDA Margin	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

Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022

	For the Year Ended December 31,		
	2023	2022	% Change
	(\$ in thousands)		
Revenue	181,931	172,161	6
Gross Profit ⁽¹⁾	59,542	28,160	111
Gross Profit Margin	32.7%	16.4%	
Operating expenses			
Sales and marketing	25,235	26,950	(6)
General and administrative	21,655	25,462	(15)
Operations support	7,832	9,498	(18)
Technology and development	5,820	7,555	(23)
Stock-based compensation	2,306	4,277	(46)
Reorganization	3,009	13,461	(78)
Impairment charge on Rock Hill Facility	8,716	-	100
Related party expense	1,524	-	100
Total Operating expenses	76,097	87,203	(13)
Operating loss	(16,555)	(59,043)	72
Operating margin	(9.1)%	(34.3)%	
Government subsidies	236	7,765	(97)
Gain on sale of software and patents	7,130	-	100
Foreign exchange (loss) gain	(626)	1,445	(143)
Interest income	490	51	861
Interest expense	(4,927)	(5,160)	5
	2,303	4,101	(44)
Net loss before tax	(14,252)	(54,942)	74
Current income tax expense	332	21	1,481
	332	21	1,481
Net loss after tax	(14,584)	(54,963)	73

(1) Gross Profit for the year ended December 31, 2022, included \$1.0 million primarily related to the write off of inventory of discounted product lines, and \$2.1 million of accelerated depreciation and amortization on software associated with discontinued product lines and the closure of the Phoenix Facility.

Revenue

Revenue reflects sales to our Construction 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.

Beginning in 2020, we experienced significant increases in nearly all of our material input costs, including raw materials, shipping materials, labor, and freight. This led to significant gross margin compression in 2021 and 2022. Effective November 16, 2021, DIRTT increased product and transportation prices on new projects by approximately 6.5%. On February 17, 2022, we announced a further price increase of 5% that came into effect June 1, 2022. On June 21, 2022, an additional price increase of 10% was announced effective July 21, 2022. The increases have improved revenue and profitability through better recovery of the material input costs previously discussed.

The following table sets forth the contribution to revenue of our DIRTT Solutions and related offerings.

	For the Year Ended December 31,		
	2023	2022	% Change
	(\$ in thousands)		
Product	158,405	147,448	7
Transportation	17,674	18,030	(2)
License fees from Construction Partners	840	778	8
Total product revenue	176,919	166,256	6
Installation and other services	5,012	5,905	(15)
	181,931	172,161	6

Revenue for the year ended December 31, 2023, was \$181.9 million, an increase of \$9.8 million or 6% from the year ended December 31, 2022. Revenue in early 2023 was impacted by macroeconomic conditions, including layoffs in the technology sector and rising interest rates, both of which have affected our pipeline. For example, one large project with a customer in the technology sector that was originally scheduled for the first quarter of 2023 was deferred indefinitely. Our fourth quarter revenue was \$50.9 million, an increase of \$8.5 million or 20% from \$42.4 million for the same period in 2022. Historically, our fourth quarter revenue is lower than second and third quarter revenues due to seasonality. However, we benefited from two large healthcare projects that were completed in the quarter and from a project delayed earlier in the year that pushed into the fourth quarter. Macroeconomic conditions showed signs of improvement in late 2023, which also benefited the fourth quarter.

Installation and other services revenue was \$5.0 million for the year ended December 31, 2023, compared to \$5.9 million in the year ended December 31, 2022. This revenue primarily reflects services performed by our ICE and design teams for third parties. Except in limited circumstances, our Construction Partners, rather than the Company, perform installation services.

Our success is partly dependent on our ability to profitably develop our Construction Partner network to expand our market penetration and ensure best practices are shared across local markets. At December 31, 2023, we had 72 (2022 - 67) Construction Partners servicing multiple locations. During the year ended December 31, 2023, we announced the expansion of seven of our DIRT Construction Partners into new markets, as we expand the reach of DIRT products, predominantly in North America.

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 Year Ended December 31,		% Change
	2023	2022	
	(\$ in thousands)		
Commercial	116,693	115,102	1
Healthcare	33,970	19,739	72
Government	13,446	16,564	(19)
Education	11,970	14,073	(15)
License fees from Construction Partners	840	778	8
Total product revenue	176,919	166,256	6
Service revenue	5,012	5,905	(15)
	181,931	172,161	6

	For the Year Ended December 31,	
	2023	2022
	(in %)	
Commercial	66	70
Healthcare	19	12
Government	8	10
Education	7	8
Total Product Revenue⁽¹⁾	100	100

⁽¹⁾ Excludes license fees from Construction Partners.

Commercial revenues for the year ended December 31, 2023 were consistent with the prior year. Healthcare revenues increased by 72% in the year ended December 31, 2023, from the prior year, which included \$12.1 million from two large projects. Sales in the healthcare sector tend to be larger individual projects and are subject to timing due to a typically longer sales cycle, resulting in variability in sales levels. Education sales in 2023 decreased by 15% from the prior year and government revenues in 2023 decreased by 19% from 2022. Both the government and education sectors include a higher volume of smaller projects as compared to fiscal year 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 Year Ended December 31,		% Change
	2023	2022	
		(\$ in thousands)	
Canada	19,934	25,477	(22)
U.S.	161,997	146,684	10
	181,931	172,161	6

In 2023, 11% of revenue was from Canada, as compared to 15% in 2022. Historically, approximately 11-15% and 85-89% of revenues are derived from sales to Canada and the United States, respectively.

Sales and Marketing Expenses

Sales and marketing expenses decreased by \$1.7 million to \$25.2 million for the year ended December 31, 2023, from \$27.0 million for the year ended December 31, 2022. The decrease was largely related to a realignment of back-office support, territory coverage and cost structure with current demand levels. The decrease was largely made up of a \$1.7 million decrease in salaries and benefits, a \$0.8 million decrease in travel and entertainment costs, a \$0.5 million decrease in marketing and tradeshow costs and the benefit of offsetting our lease costs by subleasing our Dallas DXC during the year. The decreases were offset by a \$1.5 million increase in commissions expenses, a \$0.2 million increase in communications costs, and a \$0.2 million increase in professional services related to consulting services.

General and Administrative Expenses

General and administrative expenses decreased \$3.8 million to \$21.7 million for the year ended December 31, 2023, from \$25.5 million for the year ended December 31, 2022. The decrease was driven by a \$3.2 million decrease in professional fees made up of legal and outside consulting costs, a \$0.8 million decrease in depreciation costs, and a \$0.6 million decrease in office and communications costs. These decreases were slightly offset by a \$0.4 million increase in building costs related to higher costs to operate in our existing facilities and \$0.2 million higher travel and entertainment costs.

Operations Support Expenses

Operations support is comprised primarily of project managers, order entry and other professionals that facilitate the integration of our Construction Partner project execution and our manufacturing operations. Operations support expenses of \$7.8 million in 2023 decreased \$1.7 million from \$9.5 million in 2022. The decrease was largely driven by a \$1.4 million decrease in salaries and benefits and a \$0.2 million reduction in travel and entertainment costs related to planned headcount reductions and the reorganization initiatives undertaken.

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 decreased by \$1.7 million to \$5.8 million for the year ended December 31, 2023, compared to \$7.6 million for the year ended December 31, 2022. The decrease was primarily related to a \$1.1 million decrease in salaries and benefits costs, a \$0.2 million decrease in office and communication costs, a \$0.2 million decrease in professional fees related to outside consulting services and a \$0.2 million decrease in other expenses.

Stock-Based Compensation

Stock-based compensation expense for the year ended December 31, 2023, was \$2.3 million compared to \$4.3 million in 2022. The decrease in this expense was largely due to RSU grants in lieu of cash compensation to the Company's interim Chief Executive Officer in 2022, which were not repeated in 2023. DSUs were granted to the Board of Directors but were offset by the impact of fair value adjustments on cash settled awards as a result of our share price decreasing during the twelve months ended December 31, 2023.

Reorganization

For the year ended December 31, 2023, we incurred \$3.0 million of reorganization costs compared to \$13.5 million during the year ended December 31, 2022. Fiscal year 2023 costs related primarily to costs associated with the Rock Hill Facility suspension and subsequent closure, and termination costs associated with actions taken to streamline our back office and operational support functions, as discussed herein. Reorganization costs in 2022 were driven by the closure of the Phoenix Facility, the one-time costs associated with reductions of salaried workforce throughout 2022, and changes in management.

Impairment charge on Rock Hill Facility

On September 27, 2023, the Company announced our intention to permanently close the Rock Hill Facility in South Carolina. For the year ended December 31, 2023, certain assets located at the Rock Hill Facility that were classified as property, plant and equipment, were reclassified as assets held for sale. Certain Rock Hill Facility assets had been approved by management for sale and had committed to a formal plan to market these assets, which is expected to be completed within the next twelve months. These were measured at the lower of the fair value less costs to sell and their net book value, which resulted in an \$8.7 million impairment charge in the year ended December 31, 2023.

Related party expense

On March 15, 2023, the Company entered into a Debt Settlement Agreement (the “Debt Settlement Agreement”) with 22NW Fund, LP (“22NW”) and Aron English, 22NW’s principal and a director of DIRT, (together, the “22NW Group”) who, collectively, beneficially owned approximately 19.5% of the Company’s issued and outstanding common shares at such time. Pursuant to the Debt Settlement Agreement, the Company agreed to reimburse the 22NW Group for the costs incurred by the 22NW Group in connection with the contested director election at the annual and special meeting of shareholders of the Company held on April 26, 2022, being \$1.6 million (the “22NW Debt”).

Pursuant to the Debt Settlement Agreement, the Company agreed to repay the 22NW Debt by either, or a combination of (i) a payment in cash by the Company to the 22NW Group, and/or (ii) the issuance of equity securities of the Company to the 22NW Group.

In connection with the Debt Settlement Agreement, on March 15, 2023, the Company entered into a share issuance agreement with the 22NW Group, pursuant to which the Company agreed to repay the 22NW Debt with the issuance to the 22NW Group of 3,899,745 common shares at a deemed price of \$0.40 per common share, subject to approval by shareholders.

At the annual general and special meeting of shareholders held on May 30, 2023, shareholders voted to approve the issuance of common shares, and on June 2, 2023, the Company issued 3,899,745 common shares to 22NW Group as repayment for the 22NW Debt. Upon settlement, the debt was revalued at the higher of the deemed price of \$0.40 per common share and the May 30, 2023, market price of \$0.38 per common share, resulting in a recovery from the balance recorded at March 31, 2023 which had been valued at a price of \$0.53 per common share.

Government Subsidies

The Company was not eligible and did not receive any new government subsidies in the year ended December 31, 2023. The Company received \$0.2 million of interest with the collection of the Employee Retention Credit (“ERC”) during the year ended December 31, 2023.

Gain on sale of software and patents

On May 9, 2023, we entered into the AWI Agreement and Partial Patent Assignment Agreement with AWI. The agreements provided for a cash payment from AWI to the Company of \$10.0 million in exchange for the partial assignment to AWI and resulting co-ownership of a 50% interest in the rights, title and interests in certain intellectual property rights in the Applicable ICE Code, including a 50% interest in the patent rights that relate to the Applicable ICE Code. Pursuant to the AWI Agreement, we also provided AWI a transfer of knowledge concerning the source code of the Applicable ICE Code. In exchange for completing the knowledge transfer, we received an additional cash payment of \$1.0 million in the fourth quarter of 2023. The AWI Agreement provides that we and AWI have separate exclusive fields of use and restrictive covenants with respect to the Applicable ICE Code and related intellectual property, which survive until either party elects to separate from its relationship with the other and for five years thereafter. We concurrently entered into the ARMSA with AWI, under which AWI has also prepaid for certain development services to be provided by DIRT. The ARMSA will automatically terminate if the AWI Agreement is terminated or expires and may also be terminated if either party breaches the exclusive fields of use or restrictive covenants in the AWI Agreement.

The \$11.0 million of proceeds on the sale of the 50% interest in the Applicable ICE code, pursuant to the AWI Agreement, was received during the year ended December 31, 2023. In accordance with GAAP, the proceeds were first applied to the net book value of the related cost of software of \$2.9 million and patents (other assets) of \$0.9 million. The residual amount of \$7.1 million was recognized as a gain in the consolidated statement of operations. Further, \$1.8 million was received as a prepayment under the ARMSA, which is recognized into revenue as the performance obligation is met. During the year ended December 31, 2023, \$1.6 million of the \$1.8 million payment was received into revenue, and \$0.2 million remains in customer deposits to be received as revenue in 2024. Part of the proceeds of this transaction were used to settle one of our equipment leases of \$1.6 million and resulted in the release of \$0.4 million of restricted cash (refer to Note 14 to our Consolidated Financial Statements for additional information).

Foreign Exchange (loss) gain

In the year ended December 31, 2023, we had a foreign exchange loss of \$0.6 million compared to a gain of \$1.4 million in the year ended December 31, 2022, due to fluctuations of the Canadian dollar relative to the U.S. dollar.

Interest Income

Interest income increased to \$0.5 million for the year ended December 31, 2023, compared to \$0.1 million in the year ended December 31, 2022, as we benefited from higher interest rates on higher cash balances.

Interest expense

Interest expense decreased by \$0.2 million from \$5.2 million for the year ended December 31, 2022, to \$4.9 million for the year ended December 31, 2023, mostly related to the weaker Canadian dollar relative to the U.S. dollar on our interest expense on Canadian convertible debentures.

Income Tax

The provision for income taxes comprises U.S. and Canadian federal, state and provincial taxes based on pre-tax income. Income tax expense for the year ended December 31, 2023, was \$0.3 million, compared to \$0.02 million for the same period of 2022. For the year ended December 31, 2023, the Company recorded valuation allowances of \$4.2 million (2022 - \$13.6 million) against deferred tax assets incurred during the year as the Company has experienced cumulative losses in recent years. Due to the Company's three-year history of negative earnings, it is not more likely than not that the Company's deferred tax assets will be utilized in the near term.

As at December 31, 2023, we had C\$114.1 million of loss carry-forwards in Canada and \$55.5 million in the United States. These loss carry-forwards will begin to expire in 2032.

Net Loss after tax

Net loss after tax decreased to \$14.6 million or \$0.13 net loss after tax per share in the year ended December 31, 2023, from a net loss after tax of \$55.0 million or \$0.55 net loss after tax per share for the year ended December 31, 2022. The decreased loss is primarily the result of a \$31.4 million increase in gross profit and a \$11.1 million decrease in operating expenses (which includes a \$10.5 million decrease in reorganization expenses, \$8.7 million of impairment charges on the Rock Hill Facility and a \$1.5 million related party expense), a \$0.4 million increase in interest income and a \$0.2 million decrease in interest expense, offset by a \$7.5 million decrease in government subsidies, a \$2.1 million decrease in foreign exchange gain, and a \$0.3 million increase in income tax expense.

Three Months Ended December 31, 2023 Compared to the Three Months ended December 31, 2022

	For the Three Months Ended December 31,		
	2023	2022	% Change
	(\$ in thousands)		
Revenue	50,933	42,427	20
Gross Profit	19,238	11,589	66
Gross Profit Margin	37.8%	27.3%	
Operating expenses			
Sales and marketing	6,933	5,856	18
General and administrative	5,652	4,050	40
Operations support	2,268	2,151	5
Technology and development	1,765	1,841	(4)
Stock-based compensation	(237)	731	(132)
Reorganization	152	1,180	(87)
Impairment charge on Rock Hill Facility	764	-	100
Total Operating expenses	17,297	15,809	9
Operating income (loss)	1,941	(4,220)	146
Operating margin	3.8%	(9.9)%	
Gain on sale of software and patents	985	-	100
Foreign exchange (loss) gain	(567)	(425)	(33)
Interest income	219	1	21,800
Interest expense	(1,291)	(1,225)	(5)
	(654)	(1,649)	60
Net income (loss) before tax	1,287	(5,869)	122
Current income tax expense	332	37	797
	332	37	797
Net income (loss) after tax	955	(5,906)	116

Annual 2023 Non-GAAP Measures

Adjusted Gross Profit and Adjusted Gross Profit Margin for the Years Ended December 31, 2023, 2022 and 2021

The following table presents a reconciliation for the years ended December 31, 2023, 2022, and 2021 of Adjusted Gross Profit to our gross profit and Adjusted Gross Profit Margin to gross profit margin, which are the most directly comparable GAAP measures for the periods presented:

	For the Year Ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Gross profit	59,542	28,160	23,460
Gross profit margin	32.7%	16.4%	15.9%
Add: Depreciation and amortization expense	5,525	10,789	8,808
Add: Costs of under-utilized capacity	-	-	1,756
Adjusted Gross Profit	65,067	38,949	34,024
Adjusted Gross Profit Margin	35.8%	22.6%	23.1%

For the year ended December 31, 2023, gross profit and gross profit margin increased to \$59.5 million or 32.7% from \$28.2 million or 16.4% for the prior period. Adjusted Gross Profit and Adjusted Gross Profit Margin increased 67% to \$65.1 million or 35.8% for the year ended December 31, 2023, from \$38.9 million or 22.6% for the year ended December 31, 2022. Gross profit for the year ended December 31, 2022, included \$2.1 million of accelerated depreciation and amortization arising from the change in useful lives of the Phoenix Facility's equipment. The improvement in Adjusted Gross Profit was due to having better leverage over fixed costs through price increases and reduced fixed costs. Labor costs decreased \$3.4 million and fixed costs decreased \$2.7 million in 2023 compared to 2022 as a result of initiatives to align our fixed costs with anticipated demand. Actions taken that impacted our overheads included the closure of our Phoenix Facility during the second quarter of 2022 and the temporary suspension of operations at our Rock Hill Facility in the third quarter of 2022. Idle facility costs incurred since the suspension of operations at the Rock Hill Facility were \$2.0 million for the year ended December 31, 2023, compared to \$0.5 million for the previous year, and are included in cost of sales. We are pursuing options to sublease the Rock Hill Facility to offset idle facility costs in 2024 and beyond.

EBITDA and Adjusted EBITDA for the Years Ended December 31, 2023, 2022 and 2021

The following table presents a reconciliation for the results of 2023, 2022 and 2021 of EBITDA and Adjusted EBITDA to our net loss, which is the most directly comparable GAAP measure for the years presented, and of Adjusted EBITDA Margin to net loss margin:

	For the Year Ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Net loss after tax for the year	(14,584)	(54,963)	(53,668)
Add back (deduct):			
Interest expense	4,927	5,160	3,131
Interest income	(490)	(51)	(77)
Income tax expense (recovery)	332	21	(204)
Depreciation and amortization	8,934	15,119	14,513
EBITDA	(881)	(34,714)	(36,305)
Foreign exchange (gain) loss	626	(1,445)	335
Stock-based compensation	2,306	4,277	4,713
Government subsidies	(236)	(7,765)	(11,455)
Related party expense	1,524	-	-
Reorganization expense	3,009	13,461	-
Gain on sale of software and patents	(7,130)	-	-
Impairment charge on Rock Hill Facility	8,716	-	-
Goodwill impairment	-	-	1,443
Adjusted EBITDA	7,934	(26,186)	(41,269)
Net Loss Margin⁽¹⁾	(8.0)%	(31.9)%	(36.4)%
Adjusted EBITDA Margin	4.4%	(15.2)%	(28.0)%

⁽¹⁾ Net loss divided by revenue.

For the year ended December 31, 2023, Adjusted EBITDA and Adjusted EBITDA Margin increased by \$34.1 million to \$7.9 million or 4.4% from a \$26.2 million loss or (15.2)% in the same period of 2022. This reflects a \$26.1 million increase in Adjusted Gross Profit, discussed above, a \$4.2 million decrease in salary and wage expenses, reflecting the impact of headcount reductions resulting from reorganization initiatives, \$3.2 million of decreased professional fees, and \$0.9 million decrease in other operating expenses as a result of continued evaluation of our fixed cost structure and overhead costs.

Reconciliation of Q4 2023 Non-GAAP Measures

Adjusted Gross Profit and Adjusted Gross Profit Margin for the Three Months Ended December 31, 2023, 2022 and 2021

The following table presents a reconciliation for the three months ended December 31, 2023, 2022, and 2021 of Adjusted Gross Profit to our gross profit, and Adjusted Gross Profit Margin to gross profit margin, which is the most directly comparable GAAP measure for the periods presented:

	For the Three Months Ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Gross profit	19,238	11,589	8,416
Gross profit margin	37.8%	27.3%	19.6%
Add: Depreciation and amortization expense	869	1,997	2,425
Adjusted Gross Profit	20,107	13,586	10,841
Adjusted Gross Profit Margin	39.5%	32.0%	25.3%

EBITDA and Adjusted EBITDA for the Three Months Ended December 31, 2023, 2022 and 2021

The following table presents a reconciliation for the three months ended results of 2023, 2022 and 2021 of EBITDA and Adjusted EBITDA to our net income (loss), which is the most directly comparable GAAP measure for the periods presented, and of Adjusted EBITDA Margin to net income (loss) margin:

	Three months ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Net income (loss) after tax for the period	955	(5,906)	(16,012)
Add back (deduct):			
Interest expense	1,291	1,225	1,014
Interest income	(219)	(1)	(15)
Income tax expense (recovery)	332	37	(551)
Depreciation and amortization	1,718	2,917	3,875
EBITDA	4,077	(1,728)	(11,689)
Foreign exchange (gain) loss	567	425	621
Stock-based compensation	(237)	731	921
Government subsidies	-	-	(1,021)
Reorganization expense	152	1,180	-
Gain on sale of software and patents	(985)	-	-
Impairment charge on Rock Hill Facility	764	-	-
Goodwill impairment	-	-	1,443
Adjusted EBITDA	4,338	608	(9,725)
Net Income (Loss) Margin⁽¹⁾	1.9%	(13.9)%	(37.3)%
Adjusted EBITDA Margin	8.5%	1.4%	(22.7)%

⁽¹⁾ Net loss divided by revenue.

Year Ended December 31, 2022 Compared to the Year Ended December 31, 2021

Discussion and analysis of our financial condition and results of operations for the fiscal year ended December 31, 2022, compared to the fiscal year ended December 31, 2021, is included under the heading Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC and applicable securities commissions or similar regulatory authorities in Canada on February 22, 2023.

Liquidity and Capital Resources

As at December 31, 2023, the Company had \$24.7 million of cash on hand and C\$13.6 million (\$10.3 million) of available borrowings, compared to \$10.8 million of cash on hand and C\$7.2 million (\$5.3 million) of available borrowings as at December 31, 2022. Through the year ended December 31, 2023, the Company generated \$14.8 million in cash flow from operations, compared to a cash usage of \$44.3 million over fiscal year 2022. The Company benefited from the receipt of \$7.3 million of government subsidies during 2023.

We have implemented multiple price increases during the past two years to mitigate the impact of inflation on raw materials, costs and improve liquidity. These actions have resulted in a meaningful improvement in our gross profit margins and have served to reduce our cash usage to operate the business. Gross profit for the year ended December 31, 2023, was \$59.5 million, or 32.7% of revenue, compared to the same period in 2022, which generated gross profit of \$28.2 million, or 16.4% of revenue.

Over the same period, we have executed upon several initiatives to improve liquidity. First, in May 2023, we entered into an agreement with AWI resulting in the receipt of \$12.8 million of cash throughout 2023. Second, in March 2023, we entered into an agreement to sublease our Dallas "DXC" to one of our Construction Partners in that region. Under the sublease agreement, the subtenant has assumed responsibility for the monthly rent, utilities, maintenance, taxes and other costs as of April 1, 2023, through December 31, 2024, providing us annualized savings of approximately \$1 million. We are continuing to evaluate other properties for sale and leaseback or sublease opportunities, including our Rock Hill Facility, and expect these initiatives to result in positive cash inflows in 2024. Third, we completed a private placement of 8,667,449 common shares in November 2022 for aggregate gross proceeds of \$2.8 million (the "Private Placement"), with certain significant shareholders and directors and officers of the Company to bridge cash requirements before the completion and closing of the noted strategic transactions. The Company entered into irrevocable subscription agreements with its two largest shareholders, 22NW and 726 BC LLC and 726 BF (together "726" (which subsequently transferred its holdings to WWT)) and all the directors and officers of the Company on November 14, 2022, to issue 8.7 million shares for gross consideration of \$2.8 million. The Private Placement closed on November 30, 2022.

On November 21, 2023, the Company announced a rights offering to common shareholders for aggregate gross proceeds of C\$30.0 million (the "Rights Offering"). The Rights Offering closed on January 9, 2024, for aggregate gross proceeds of C\$30.0 million.

On February 15, 2024, the Company announced a substantial issuer bid and tender offer (the "Issuer Bid"), under which the Company will offer to repurchase for cancellation: (i) up to C\$6,000,000 principal amount of its issued and outstanding January Debentures") (or such larger principal amount as the Company, in its sole discretion, may determine it is willing to take-up and pay for, subject to applicable law) at a purchase price of C\$720 per C\$1,000 principal amount of January Debentures; and (ii) up to C\$9,000,000 principal amount of its issued and outstanding 6.25% convertible unsecured subordinated debentures due December 31, 2026 (the "December Debentures", and, together with the January Debentures, the "Debentures" or the "convertible debentures") (or such larger principal amount as the Company, in its sole discretion, may determine it is willing to take-up and pay for, subject to applicable law) at a purchase price of C\$600 per C\$1,000 principal amount of December Debentures. Holders of Debentures who validly tender and do not withdraw their Debentures will receive the applicable purchase price, plus a cash payment for all accrued and unpaid interest up to, but excluding, the date on which such Debentures are taken up by the Company. The applicable purchase price will be denominated in Canadian dollars and payments of amounts owed to holders of deposited Debentures, including for interest, will be made in Canadian dollars. The Issuer Bid will remain open for acceptance until 5:00 p.m. (Eastern Standard Time) on March 22, 2024, unless withdrawn or extended by the Company. If the aggregate principal amount of the Debentures properly tendered and not withdrawn under the Issuer Bid exceeds C\$6,000,000 for the January Debentures or C\$9,000,000 for the December Debentures, the Company will purchase a pro-rated portion of the January Debentures or the December Debentures so tendered, as applicable (with adjustments to maintain C\$1,000 minimum denominations of Debentures). DIRT will return all Debentures not purchased under the Issuer Bid, including Debentures not purchased because of pro-ration. Debentures taken up and paid for by the Company will be immediately cancelled.

The Company intends to fund the Issuer Bid with a portion of the proceeds from the Company's previously completed rights offering to its common shareholders, which closed in January 2024 for aggregate gross proceeds of C\$30.0 million.

On February 4, 2024, the Company entered into a Litigation Funding Agreement with a third party for the funding of up to \$4.0 million of litigation costs in respect of specific claims against Falkbuilt, Inc., Falkbuilt Ltd. and Henderson. In return, the Company has agreed to pay from any proceeds received from the settlement of such claims, a reimbursement of funded amounts plus diligence and underwriting costs, plus a multiple of such funded amount based on certain milestones.

While we are encouraged by the improved profitability and cash flow, we have continued to evaluate our fixed cost structure and overhead in light of recent macroeconomic uncertainty. We have implemented multiple reorganization initiatives designed to align our cost structure with current expected levels of demand. In addition, the Company has reduced headcount by approximately 10%, from January 2022 through December 2023.

We have assessed the Company's liquidity as at December 31, 2023, taking into account our sales outlook for the next twelve months, our existing cash balances and available credit facilities. Based upon this analysis, we believe the Company has sufficient liquidity to remain a going concern for at least the next twelve months.

To the extent that existing cash and cash equivalents and available 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. While we believe we can access capital markets when needed or under acceptable terms, there can be no assurance we will be able to do so.

In January 2021, we issued C\$40.3 million of 6.00% convertible unsecured subordinated debentures due January 31, 2026 (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 January 31, 2026. As a result of the Rights Offering, the conversion price was adjusted to C\$4.03 per common share. Interest and principal are payable in cash or shares at the option of the Company. As at December 31, 2023, C\$18.9 million of the January Debentures are held by a related party, 22NW. 22NW holds approximately 30.1% of our issued and outstanding common shares as of February 16, 2024. Aron English, manager of 22NW Fund GP, LLC, the general partner of 22NW, is a director of the Company.

In February 2021, we 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 "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. On February 9, 2023, the Company extended the RBC Facility. The maximum availability under the Extended RBC Facility is subject to the borrowing base calculation to a maximum of C\$15 million and a one-year term. Available borrowings under the Extended RBC Facility as at December 31, 2023, were C\$13.6 million (\$10.3 million).

On December 1, 2021, we issued C\$35.0 million of 6.25% convertible unsecured subordinated debentures due December 31, 2026 (the "December Debentures" and together with the January Debentures, the "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 December 31, 2026. As a result of the Rights Offering, the conversion price was adjusted to C\$3.64 per common share. Interest and principal are payable in cash or shares at the option of the Company. As at December 31, 2023, C\$13.6 million of the December Debentures are held by a related party, 22NW.

The Company has a C\$5.0 million equipment leasing facility in Canada (the "Canada Leasing Facility") of which C\$4.4 million (\$3.4 million) has been drawn and C\$3.8 million (\$2.9 million) has been repaid, and a \$14.0 million equipment leasing facility in the United States of which \$13.3 million has been drawn and repaid (the "U.S. Leasing Facility" and, together with the Canada Leasing Facility, the "Leasing Facilities") with RBC, and one of its affiliates. The Canada Leasing Facility has a seven-year term and bears interest at 4.25%. In connection with the Company's decision to close the Rock Hill Facility, we settled the liability related to the U.S. Leasing Facility (\$7.8 million). The U.S. Leasing Facility is no longer available to be drawn on. With the settlement of this liability, we released \$2.6 million of restricted cash.

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

	For The Year Ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Net cash flows provided by (used in) operating activities	14,821	(44,260)	(31,210)
Net cash flows provided by (used in) investing activities	7,657	(4,024)	(14,138)
Net cash flows (used in) provided by financing activities	(11,605)	(874)	62,452
Effect of foreign exchange on cash, cash equivalents and restricted cash	(13)	(11)	458
Net increase (decrease) in cash, cash equivalents and restricted cash	10,860	(49,169)	17,562
Cash, cash equivalents and restricted cash, beginning of year	14,239	63,408	45,846
Cash, cash equivalents and restricted cash, end of year	25,099	14,239	63,408

	For the Year Ended December 31,		
	2023	2022	2021
Cash and cash equivalents	24,744	10,821	60,313
Restricted cash	355	3,418	3,095
Total cash, cash equivalents and restricted cash	25,099	14,239	63,408

Operating Activities

Net cash flows provided by operating activities were \$14.8 million for the year ended December 31, 2023, compared to \$44.3 million used by operating activities for the year ended December 31, 2022. The improvement in cash flows used in operations is largely due to the \$34.1 million increase in Adjusted EBITDA and a \$10.5 million decrease in reorganization costs. We achieved positive operating cash flows through the realization of price increases and reorganization initiatives which have been designed to align our cost structure with current expected levels of demand.

Investing Activities

Cash flows provided by investing activities during the year ended December 31, 2023, benefited from \$11.0 million of proceeds from the AWI transaction.

We invested \$1.2 million in property, plant and equipment during the year ended December 31, 2023, compared to \$2.4 million during the year ended December 31, 2022. Expenditures consisted of \$0.3 million of information technology investments, \$0.4 million of DXC refreshes and \$0.5 million of manufacturing upgrades for the year ended December 31, 2023. We invested \$1.8 million on capitalized software during the year ended December 31, 2023, compared to \$1.7 million for the year ended December 31, 2022.

Financing Activities

For the year ended December 31, 2023, \$11.6 million of cash was used in financing activities, comprising \$2.2 million of scheduled repayments and \$9.4 million of early repayments under the U.S. Leasing Facility and the Canada Leasing Facility. For the year ended December 31, 2022, \$0.9 million of cash was used in financing activities mainly driven by the scheduled repayments under the Leasing Facilities, offset by the receipt of \$2.0 million net proceeds from the Private Placement and a draw of C\$0.9 million (\$0.7 million) under the Canada Leasing Facility.

We currently expect to fund anticipated future investments with available cash, proceeds from the Rights Offering and drawings on the Second Extended RBC Facility. As of December 31, 2023, our strategic initiatives have generated cash through proceeds from the Private Placement in November 2022, the receipt of \$7.3 million of government subsidy through the ERC application during the year ended December 31, 2023, and proceeds of \$12.8 million received in 2023 through the AWI transaction. We continue to evaluate properties we own for sale and lease back and opportunities to sub-lease available spaces. 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 price of our common shares at the time, interest rates, and nature of the investment opportunity and economic climate. No assurance can be given that any of these actions will be successful or will be sufficient for our needs.

Consolidated cash flows for the quarter as indicated:

	For the three months ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Net cash flows provided by (used in) operating activities	10,134	3,249	(7,338)
Net cash flows provided by (used in) investing activities	568	(429)	(1,582)
Net cash flows (used in) provided by financing activities	(8,193)	928	26,369
Effect of foreign exchange on cash, cash equivalents and restricted cash	153	62	(123)
Net increase in cash, cash equivalents and restricted cash	2,662	3,810	17,326
Cash, cash equivalents and restricted cash, beginning of period	22,437	10,429	46,082
Cash, cash equivalents and restricted cash, end of period	25,099	14,239	63,408

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. 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. 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.

On February 9, 2023, the Company extended the RBC Facility (the “Extended RBC Facility”). The Extended RBC Facility has a maximum borrowing base of C\$15 million and a one-year term. Interest is calculated as at the Canadian or U.S. prime rate plus 75 basis points or at the Canadian Dollar Offered Rate or LIBOR plus 200 basis points. Under the Extended RBC Facility, until such time that the trailing twelve-month FCCR is above 1.25 for three consecutive months, a cash balance equivalent to one-year’s worth of Leasing Facilities payments must be maintained. At December 31, 2023, available borrowings are C\$13.6 million (\$10.3 million) (2022 – C\$7.2 million (\$5.3 million) of available borrowings), calculated in the same manner as the RBC Facility described above, of which no amounts have been drawn. The Company did not meet the three-month FCCR requirement during the year end 2023, which resulted in the restriction of \$0.4 million of cash (2022 - \$3.4 million).

On February 9, 2024, the Company extended the Extended RBC Facility (the “Second Extended RBC Facility”). The maximum availability under the Second Extended RBC Facility is subject to the borrowing base calculation to a maximum of C\$15 million and a one-year term. Interest is calculated as at the Canadian or U.S. prime rate plus 75 basis points or at the Canadian Dollar Offered Rate or Adjusted Term CORRA or Term SOFR plus the Term SOFR Adjustment, in each case, plus 200 basis points.

The Company has a C\$5.0 million equipment leasing facility in Canada (the “Canada Leasing Facility”) of which C\$4.4 million (\$3.4 million) has been drawn and C\$3.8 million (\$2.9 million) has been repaid, and a \$14.0 million equipment leasing facility in the United States of which \$13.3 million has been drawn and repaid (the “U.S. Leasing Facility” and, together with the Canada Leasing Facility, the “Leasing Facilities”) with RBC. The Canada Leasing Facility has a seven-year term and bears interest at 4.25%.

The Company did not make any draws on the Leasing Facilities during 2023. During the year ended December 31, 2022, the Company received C\$0.9 million (\$0.7 million) under the Canada Leasing Facility.

As part of the decision to close the Rock Hill Facility, the Company fully settled the liability related to the U.S. Leasing Facility of \$7.8 million in the fourth quarter of 2023. The U.S. Leasing Facility is no longer available to be drawn on. With the settlement of this liability, \$2.6 million was released from restricted cash.

As part of RBC’s consent to the AWI transaction, one of the Canadian lease agreements of \$1.6 million was fully settled using proceeds from the AWI transaction. This resulted in the release of \$0.4 million of restricted cash associated with the one year of payments on this lease.

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

Contractual Obligations

The following table summarizes DIRTT's contractual obligations at December 31, 2023:

	Payments due by period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	
	(\$ in thousands)				
Accounts payable and accrued liabilities	19,880	-	-	-	19,880
Other liabilities	2,482	-	-	-	2,482
Customer deposits and deferred revenue	5,290	-	-	-	5,290
Current and long-term portion of long-term debt and accrued interest ⁽¹⁾	7,190	59,692	134	-	67,016
Lease liabilities (undiscounted)	5,424	11,542	8,209	19,929	45,104
Purchase obligations	2,797	-	-	-	2,797
Total	43,063	71,234	8,343	19,929	142,569

⁽¹⁾ Includes principal and interest. Refer to Note 14 of our Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2 to our Consolidated Financial Statements appearing in Item 8 of this Annual Report. Our critical accounting estimates include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly affect our financial results under different assumptions and conditions. We prepare our financial statements in conformity with GAAP. As a result, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates. Critical estimates and assumptions made by management include:

Estimates of liabilities associated with the potential and amount of warranty, legal claims and other contingencies

We have warranty obligations with respect to manufacturing defects on most of our manufactured products. Warranty periods generally range from one to ten years. We have recorded a reserve for estimated warranty and related costs based on historical experience and periodically adjust these provisions to reflect actual experience. We assess the adequacy of our warranty accrual on a quarterly basis, and adjust the previous amounts recorded, if necessary, to reflect the change in estimate of the future costs of claims yet to be serviced. Typically, product deficiencies requiring our warranty are identified and remediated within a year of production. The following provides information with respect to our warranty accrual. At December 31, 2023 and 2022, we had \$0.9 million and \$1.3 million, respectively, accrued for warranty and other provisions, and third-party costs associated with remedying deficiencies were \$1.2 million during the fiscal year ended December 31, 2023, as compared to \$1.1 million during the fiscal year ended December 31, 2022.

We establish reserves for estimated legal contingencies when we believe a loss on litigation is probable and the amount of the loss can be reasonably estimated. Revisions to contingent liability reserves are reflected in operations in the period in which there are changes in facts and circumstances that affect our previous assumptions with respect to the likelihood or amount of loss. Reserves for contingent liabilities are based upon our assumptions and estimates regarding the probable outcome of the matter. We estimate the probable cost by evaluating historical precedent as well as the specific facts relating to each contingency (including the opinion of outside advisors). Should the outcome differ from our assumptions and estimates, or other events result in a material adjustment to the accrued estimated reserves, revisions to the estimated reserves for contingent liabilities would be required and would be recognized in the period the new information becomes known. At December 31, 2023 and 2022, we had \$0.05 million provided for legal provisions.

Estimates of useful lives of depreciable assets, the fair value of long-term assets used for impairment calculations and the fair value less costs to sell for assets held for sale

We evaluate the recoverability of our property, plant, and equipment (“PP&E”), capitalized software costs and right of use assets when events or changes in circumstances indicate a potential impairment exists. If impairment is indicated, the impairment loss is measured as the amount the assets carrying value exceeds the fair value of the assets.

Our determination of the fair value associated with long-term assets involves significant estimates and assumptions, including those with respect to the determination of asset groups, future cash inflows and outflows, discount rates, and asset lives. These significant estimates require considerable judgment, which could affect our future results if the current estimates of future performance and fair values change.

We estimate the useful lives of PP&E, capitalized software costs and right of use assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the PP&E and capitalized software assets would increase the recorded expenses and decrease the non-current assets.

As at December 31, 2021, the fair value of goodwill did not exceed the carrying value of its net assets and, accordingly, the entire \$1.4 million balance of goodwill was impaired as at December 31, 2021. There was no impairment charge for the year ended December 31, 2023, or December 31, 2022.

The Company classifies an asset group (“asset”) as held for sale in the period that (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year (subject to certain events or circumstances), (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially and subsequently measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the consolidated statement of operations and comprehensive loss in the period in which the held for sale criteria are met. We estimate the fair value less costs to sell based on market prices and discussions with potential buyers on the assets that are held for sale. The amounts and timing that the assets held for sale are sold could be impacted on the ability to market and sell the assets held for sale, and find a suitable buyer.

Estimates of future taxable earnings used to assess the realizable value of deferred tax assets

We use the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. Such method requires the exercise of significant judgment in determining whether or not it is more likely than not our deferred tax assets may be realized and, therefore, can be recognized in the financial statements. Also, estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled. We assess the ability to recover our deferred tax assets every quarter and concluded that a valuation allowance was required against our deferred tax assets at December 31, 2023 of \$34.5 million (2022 - \$29.8 million).

Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiary operate

The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. Our provision for income taxes reflects a combination of income earned and taxed in the various U.S. federal and state, and Canadian federal and provincial, jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for tax contingencies or valuation allowances, and the change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

We have no liability for uncertain tax positions. However, should we accrue for such liabilities, when and if they arise in the future, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

Estimates of the fair value of stock awards, including whether the performance criteria will be met and measurement of the ultimate payout amount

We use a fair-value based approach for measuring stock-based compensation and record compensation expense over an award's vesting period based on the award's fair value at the date of grant. Our awards vest based on service conditions, and compensation expense is recognized on a straight-line basis. Stock-based compensation expense is recognized only for those awards that ultimately vest.

Estimates of ability and timeliness of customer payments of accounts receivable

Our expected credit loss reflects reserves for customer receivables to reduce receivables to amounts expected to be collected. Management uses significant judgment in estimating expected credit losses. In estimating the Company's current estimate of expected credit losses, management considers 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. While we believe these processes effectively address our exposure for doubtful accounts and credit losses which have historically been within expectations, changes in the economy, industry, or specific customer conditions may require adjustments to the expected credit loss. We have a contract with a trade credit insurance provider, whereby a portion of our trade receivables are insured. The trade credit insurance provider determines the coverage amount, if any, on a customer-by-customer basis. Based on our trade receivables balance as at December 31, 2023 and 2022, approximately 93% and 77%, respectively, of that balance was covered by the trade credit insurance provider.

At December 31, 2023, we had an allowance for expected credit loss of \$0.1 million (2022 - \$0.1 million).

Recent Accounting Pronouncements

Please refer to Note 3 to our Consolidated Financial Statements presented elsewhere in this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our financial assets and liabilities consist primarily of cash and cash equivalents, restricted cash, trade and accrued receivables, other receivables, long-term deposits and long-term receivables, accounts payable and accrued liabilities, other liabilities, lease liabilities and long-term debt and accrued interest. We are exposed to market, credit and liquidity risks associated with financial assets and liabilities. We currently do not use financial derivatives to reduce exposures from changes in foreign exchange rates, commodity prices, or interest rates. We do not hold or use any derivative instruments for trading or speculative purposes. Our Board of Directors has responsibility for the establishment and approval of overall risk management policies, including those related to financial instruments. Management performs continuous assessments to ensure that all significant risks related to financial instruments are reviewed and addressed in light of changes to market conditions and operating activities.

Credit risk

Our principal financial assets are cash and cash equivalents, restricted cash, trade and accrued receivables and other receivables.

Our credit risk is primarily concentrated in our trade and accrued receivables as we do not believe that we are exposed to any significant credit risk related to our cash and cash equivalents, other receivables and restricted cash balances. The amounts disclosed in the consolidated balance sheet for trade and accrued receivables and other receivables are net of allowances for doubtful accounts. Allowances are provided for the Company's current estimate of all expected credit losses using the lifetime expected credit loss model. As at December 31, 2023 and 2022, our allowance was \$0.1 million. 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 December 31, 2023, approximately 93% of our trade accounts receivable are insured, relating to accounts receivables from counterparties deemed creditworthy by the insurer and excluding accounts receivable from government entities, that have arisen since April 1, 2020, when the trade credit insurance became effective. Our trade balances are spread over a broad Construction Partner base, which is geographically dispersed. One Construction Partner accounted for greater than 10% of revenue in 2023 (2022- none). In addition, and where possible, we collect a 50% deposit on sales, excluding government and certain other clients.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates, will affect our income or the value of the financial instruments held.

Foreign exchange risk

The majority (approximately 85% to 90%) of our revenue is collected in U.S. dollars, and approximately 40% of our costs are also incurred in U.S. dollars. Most other revenue and costs are denominated in Canadian dollars. As a result, we are exposed to fluctuations in the U.S. dollar against the Canadian dollar, which could have a positive or negative impact on our revenue and costs. The recent strengthening of the U.S. dollar versus the Canadian dollar in 2023 has had a marginally positive impact on results because reported costs are lower than reported revenue.

Our financial instruments are exposed primarily to fluctuations in the Canadian dollar. The following table details our exposure to currency risk at the reporting dates and a sensitivity analysis to changes in currency. The sensitivity analysis includes Canadian dollar-denominated monetary items and adjusts their translation at period end for their respective change in the Canadian dollar. For the respective weakening of the Canadian dollar, there would be an equal and opposite impact on net loss and comprehensive loss.

	Amount (C\$ in thousands)	Change in Currency (%)	Effect of net loss and comprehensive loss for the year ended December 31, 2023
Cash and cash equivalents	1,623	10%	162
Restricted cash	153	10%	15
Trade and accrued receivables	2,538	10%	254
Other receivables	575	10%	58
Other assets	158	10%	16
Accounts payable and accrued liabilities	16,348	10%	1,635
Other liabilities	2,048	10%	205
Current portion of long-term debt and accrued interest	105	10%	11
Long-term debt	72,560	10%	7,256
Total	96,108	10%	9,612

Commodity price risk

We consume raw materials such as aluminum, hardware, wood and veneer, timber, plastic, electrical wiring and components, paint and powder, fabric and vinyl. While aluminum represents the largest component of our raw materials' expenditures, overall aluminum spend comprises only approximately 9% of product revenues and, therefore, absolute exposure to price fluctuations has a minimal impact on profitability.

Interest rate risk

In February 2021, we entered into the RBC Facility. On February 9, 2023, the Company entered into the Extended RBC Facility. The Extended RBC Facility has a maximum borrowing base of C\$15 million and a one-year term. Interest is calculated as at the Canadian or U.S. prime rate plus 75 basis points or at the Canadian Dollar Offered Rate or LIBOR plus 200 basis points. We did not draw on the facilities during 2021, 2022 or 2023 and were, therefore, not exposed to any interest rate risk.

The Company's Leasing Facilities and Debentures bear interest at fixed interest rates and are therefore not subject to interest rate risk.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of DIRT Environmental Solutions Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of DIRT Environmental Solutions Ltd. and its subsidiaries (together, the Company) as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada

February 21, 2024

We have served as the Company's auditor since 2017.

DIRTT Environmental Solutions Ltd.**Consolidated Balance Sheets**

(Stated in thousands of U.S. dollars)

	<u>As at December 31,</u> <u>2023</u>	<u>As at December 31,</u> <u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	24,744	10,821
Restricted cash	355	3,418
Trade and accrued receivables, net of expected credit losses of \$0.1 million at December 31, 2023 and at December 31, 2022	15,787	13,930
Other receivables	484	7,880
Inventory	16,577	22,251
Prepays and other current assets	4,023	3,825
Assets held for sale	1,555	-
Total Current Assets	63,525	62,125
Property, plant and equipment, net	25,077	41,522
Capitalized software, net	2,450	4,406
Operating lease right-of-use assets, net	29,813	30,490
Other assets	3,452	5,110
Total Assets	124,317	143,653
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	19,880	19,881
Other liabilities	2,482	2,056
Customer deposits and deferred revenue	5,290	4,866
Current portion of long-term debt and accrued interest	841	3,306
Current portion of lease liabilities	5,255	5,889
Total Current Liabilities	33,748	35,998
Long-term debt	55,267	62,129
Long-term lease liabilities	28,201	27,534
Total Liabilities	117,216	125,661
SHAREHOLDERS' EQUITY		
Common shares, unlimited authorized without par value, 105,377,667 issued and outstanding at December 31, 2023 and 97,882,844 at December 31, 2022	196,128	191,347
Additional paid-in capital	7,954	9,023
Accumulated other comprehensive loss	(16,125)	(16,106)
Accumulated deficit	(180,856)	(166,272)
Total Shareholders' Equity	7,101	17,992
Total Liabilities and Shareholders' Equity	124,317	143,653

Refer to Note 20 for Commitments.

Refer to Note 14 and Note 23 for Subsequent Events.

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

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Operations and Comprehensive Loss
(Stated in thousands of U.S. dollars, except per share data)

	For the Year Ended December 31,		
	2023	2022	2021
Product revenue	176,919	166,256	143,000
Service revenue	5,012	5,905	4,593
Total revenue	181,931	172,161	147,593
Product cost of sales	119,728	140,058	120,281
Service cost of sales	2,661	3,943	3,852
Total cost of sales	122,389	144,001	124,133
Gross profit	59,542	28,160	23,460
Expenses			
Sales and marketing	25,235	26,950	31,041
General and administrative	21,655	25,462	30,595
Operations support	7,832	9,498	9,372
Technology and development	5,820	7,555	8,234
Stock-based compensation	2,306	4,277	4,713
Reorganization	3,009	13,461	-
Impairment charge on Rock Hill Facility	8,716	-	-
Goodwill impairment	-	-	1,443
Related party expense	1,524	-	-
Total operating expenses	76,097	87,203	85,398
Operating loss	(16,555)	(59,043)	(61,938)
Government subsidies	236	7,765	11,455
Gain on sale of software and patents	7,130	-	-
Foreign exchange (loss) gain	(626)	1,445	(335)
Interest income	490	51	77
Interest expense	(4,927)	(5,160)	(3,131)
	2,303	4,101	8,066
Net loss before tax	(14,252)	(54,942)	(53,872)
Income taxes			
Current income tax expense	332	21	210
Deferred income tax recovery	-	-	(414)
	332	21	(204)
Net loss after tax	(14,584)	(54,963)	(53,668)
Net loss per share			
Net loss per share - basic and diluted	(0.13)	(0.55)	(0.55)
Weighted average number of shares outstanding (in thousands)			
Basic and diluted	116,135	99,826	96,826

Refer to Note 22 for Related Party Transactions included in this statement.

The prior year comparatives have been revised in line with current year presentation - refer to Inventory in Note 10 and Net Loss per share in Note 17.

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

DIRTT Environmental Solutions Ltd.
Consolidated Statement of Comprehensive Loss
(Stated in thousands of U.S. dollars)

	For the Year Ended December 31,		
	2023	2022	2021
Net loss for the year	(14,584)	(54,963)	(53,668)
Exchange differences on translation of foreign operations	(19)	(190)	1,102
Comprehensive loss for the year	(14,603)	(55,153)	(52,566)

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

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(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
As at December 31, 2020	84,681,364	180,639	10,175	(17,018)	(57,265)	116,531
Stock-based compensation	-	-	4,453	-	-	4,453
Issued on vesting of RSUs and Share Awards	664,069	1,143	(1,143)	-	-	-
RSUs and Share Awards withheld to settle employee tax obligations	-	-	(285)	-	(367)	(652)
Foreign currency translation adjustment	-	-	-	1,102	-	1,102
Net loss for the year	-	-	-	-	(53,668)	(53,668)
As at December 31, 2021	85,345,433	181,782	13,200	(15,916)	(111,300)	67,766
Stock-based compensation	-	-	3,943	-	-	3,943
Issued on vesting of RSUs and Share Awards	3,149,061	7,088	(7,088)	-	-	-
RSUs and Share Awards withheld to settle employee tax obligations	-	-	(1,032)	-	(9)	(1,041)
Issued for employee share purchase plan	720,901	296	-	-	-	296
Issued on private placement	8,667,449	2,181	-	-	-	2,181
Foreign currency translation adjustment	-	-	-	(190)	-	(190)
Net loss for the year	-	-	-	-	(54,963)	(54,963)
As at December 31, 2022	97,882,844	191,347	9,023	(16,106)	(166,272)	17,992
Stock-based compensation	-	-	1,713	-	-	1,713
Issued on vesting of RSUs and Share Awards	1,886,868	2,756	(2,756)	-	-	-
Issued for employee share purchase plan	1,708,210	502	-	-	-	502
RSUs and Share Awards withheld to settle employee tax obligations	-	-	(26)	-	-	(26)
Issued to settle related party debt	3,899,745	1,523	-	-	-	1,523
Foreign currency translation adjustment	-	-	-	(19)	-	(19)
Net loss for the year	-	-	-	-	(14,584)	(14,584)
As at December 31, 2023	105,377,667	196,128	7,954	(16,125)	(180,856)	7,101

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

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Cash Flows
(Stated in thousands of U.S. dollars)

	For the Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net loss for the period	(14,584)	(54,963)	(53,668)
Adjustments:			
Depreciation and amortization	8,934	15,119	14,513
Impairment charge on Rock Hill Facility	8,716	-	-
Stock-based compensation, net of settlements	2,306	3,342	4,248
Foreign exchange loss (gain)	1,099	(1,813)	112
Gain on sale of software and patents	(7,130)	-	-
Loss (gain) on disposal of equipment	153	(133)	12
Accretion of convertible debentures	698	676	352
Deferred income tax (recovery)	-	-	(414)
Goodwill impairment	-	-	1,443
Changes in operating assets and liabilities:			
Trade and accrued receivables	(1,833)	(179)	(2,118)
Other receivables	7,406	(4,432)	3,570
Inventory	5,961	(4,716)	(2,449)
Prepaid and other assets, current and long term	474	129	(1,132)
Accounts payable and accrued liabilities	2,137	260	2,702
Other liabilities	(421)	(109)	(213)
Customer deposits and deferred revenue	243	2,477	601
Current portion of long-term debt and accrued interest	(40)	(149)	948
Lease liabilities	702	231	283
Net cash flows provided by (used in) operating activities	14,821	(44,260)	(31,210)
Cash flows from investing activities:			
Purchase of property, plant and equipment, net of accounts payable changes	(1,242)	(2,394)	(11,781)
Capitalized software development expenditures	(1,794)	(1,677)	(2,340)
Other asset expenditures	(398)	(443)	(496)
Recovery of software development expenditures	127	263	461
Proceeds on sale of software and patents	10,950	-	-
Proceeds on sale of equipment	14	227	18
Net cash flows provided by (used in) investing activities	7,657	(4,024)	(14,138)
Cash flows from financing activities:			
Proceeds received on long-term debt	-	647	64,912
Repayment of long-term debt	(11,579)	(2,470)	(1,808)
Proceeds issued on private placement	-	1,990	-
Employee tax payments on vesting of RSUs	(26)	(1,041)	(652)
Net cash flows (used in) provided by financing activities	(11,605)	(874)	62,452
Effect of foreign exchange on cash, cash equivalents and restricted cash	(13)	(11)	458
Net increase (decrease) in cash, cash equivalents and restricted cash	10,860	(49,169)	17,562
Cash, cash equivalents and restricted cash, beginning of year	14,239	63,408	45,846
Cash, cash equivalents and restricted cash, end of year	25,099	14,239	63,408
Supplemental disclosure of cash flow information:			
Interest paid	(3,977)	(4,423)	(1,543)
Income taxes received	4	3,212	433

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

	For the Year Ended December 31,		
	2023	2022	2021
Cash and cash equivalents	24,744	10,821	60,313
Restricted cash	355	3,418	3,095
Total cash, cash equivalents and restricted cash	25,099	14,239	63,408

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

DIRTT Environmental Solutions Ltd.

Notes to the Consolidated Financial Statements

(Amounts stated 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 leader in industrialized construction. DIRTT’s system of physical products and digital tools empowers organizations, together with construction and design leaders, to build high-performing, adaptable, interior environments. Operating in the workplace, healthcare, education, and public sector markets, DIRTT’s system provides total design freedom, and greater certainty in cost, schedule, and outcomes.

DIRTT’s proprietary design integration software, ICE® (“ICE” or “ICE software”), translates the vision of architects and designers into a 3D model that also acts as manufacturing information. ICE is also licensed to unrelated companies and Construction Partners of the Company. As of May 9, 2023, Armstrong World Industries, Inc. (“AWI”) owns a 50% interest in the rights, titles and interest in certain intellectual property rights in a portion of the ICE Software that is used by AWI.

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”. Effective October 12, 2023, DIRTT’s common shares ceased to trade on The Nasdaq Capital Markets. DIRTT’s common shares are quoted on the OTC Markets on the “OTC Pink Tier” under the symbol “DRTTF”.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements (“Financial Statements”), including comparative figures, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

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 upon consolidation.

Basis of measurement

These Financial Statements have been prepared on the historical cost convention except for certain financial instruments, assets held for sale and stock-based compensation that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Use of estimates

The preparation of the Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the Financial Statements. Estimates are based on historical data and experience, as well as various other factors that management considers reasonable under the circumstances. Actual outcomes can differ from these estimates.

Significant estimates and assumptions made by management include:

- Estimates of ability and timeliness of customer payments of trade receivables;
- Estimates of useful lives of depreciable assets as well as the fair value of long-term assets and future cash flows used for impairment calculations;
- Determining the fair value less costs to sell of the assets held for sale;

- Estimates of future taxable earnings used to assess the realizable value of deferred tax assets and the ability to recognize a deferred tax asset;
- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiary operate;
- Estimates of the fair value of stock awards, including whether the performance criteria will be met and measurement of the ultimate payout amount; and
- Estimates of liabilities associated with the potential and amount of warranty, legal claims and other contingencies.

Segments

Management has determined that DIRTT has one operating segment. The Company's chief executive officer, who is DIRTT's chief operating decision maker, reviews financial information on a consolidated and aggregate basis, together with certain operating metrics principally, to make decisions about how to allocate resources and to measure the Company's performance.

Foreign currency translation

DIRTT Environmental Solutions Ltd. is a Canadian company and its functional currency is the Canadian dollar. DIRTT's wholly owned subsidiary is domiciled in the United States and its functional currency is the U.S. dollar.

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into the transacting company's functional currency at the year-end exchange rate for monetary items, and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rates in effect on the dates of the related transactions. Foreign exchange gains and losses, other than those arising from the translation of the Company's net investments in its foreign subsidiary, are included in income.

The accounts of the Company's U.S. dollar subsidiary is translated into Canadian dollars, and the Financial Statements are translated into U.S. dollars for financial statement presentation. Assets and liabilities are translated using year-end exchange rates, and revenues, expenses, gains and losses are translated using average monthly exchange rates. Foreign exchange gains and losses arising from the translation of the Company's assets and liabilities are included in "comprehensive loss for the year".

Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on hand held at banks and cash equivalents, which are defined as highly liquid investments with original maturities of three months or less. Restricted cash is a reserve account not available for immediate or general business use and is required when certain requirements are not met under the terms of the Company's senior secured credit facility (as defined in Note 14).

Trade and other receivables, net of expected credit losses

Accounts receivable are recorded at the invoiced amount, do not require collateral and do not bear interest. The Company estimates its allowance for doubtful accounts using the current expected credit loss ("CECL") methodology, which is designed to capture the Company's current estimate of all expected credit losses.

Inventory

Inventory is comprised of raw materials and work in progress. The Company does not typically carry a significant amount of finished goods inventory. Inventory is valued at the lower of weighted average cost and net realizable value. Net realizable value is based on an item's usability in the manufacturing of the Company's products. The Company records an allowance for obsolescence when the net realizable value of inventory items declines below weighted average cost. Net realizable value is determined based on current market prices for inventory less the estimated cost to sell. Work in progress is valued at an estimate of cost, including attributable overheads, based on stage of completion.

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 separately recognized as an expense in the period in which they are incurred.

Assets held for sale

The Company classifies an asset group (“asset”) as held for sale in the period that (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year (subject to certain events or circumstances), (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially and subsequently measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the consolidated statement of operations and comprehensive loss in the period in which the held for sale criteria are met. Upon designation as an asset held for sale, the Company stops recording depreciation expense on the asset.

The Company assesses the fair value of assets held for sale less any costs to sell at each reporting period until the asset is no longer classified as held for sale.

Leases

The Company categorizes leases at their inception as either operating or finance leases. Leases where the Company assumes substantially all of the rewards or ownership and leases where ownership is transferred at the end of the lease term, or by way of a bargain purchase option, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the balance of the liability. Finance charges are recognized in the statement of operations.

The Company’s Leasing Facilities (as defined in Note 8) are accounted for as finance leases as ownership of the equipment is expected to return to the Company at the end of the lease term. These transactions are not accounted for as a sale of the underlying equipment as the Company continues to control the equipment.

For leases categorized as operating, the Company determines if an arrangement is a lease or contains a lease element at inception. The arrangement is a lease if it conveys the right to the Company to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Operating leases are separately disclosed as operating lease right-of-use (“ROU”) assets, with a corresponding lease liability split between current and long-term components on the balance sheet. Operating leases with an initial term of 12 months or less are not included on the balance sheet.

The Company recognizes lease expense for these leases on a straight-line basis over the lease term. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any accumulated impairment losses. Expenditures for repairs and maintenance are expensed as incurred, while renewals and betterments are capitalized.

Depreciation is charged to the consolidated statement of operations on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the Company’s property, plant and equipment are as follows:

Building	25 years
Manufacturing equipment	10 years
Leasehold improvements	Over term of lease (1 to 14 years)
Office equipment	5 years
Tooling and prototypes	4 years
Computer equipment	3 years
Vehicles	3 years

When assets are disposed of or retired, the cost and accumulated depreciation and impairment losses are removed from the respective accounts and any resulting gain or loss is reflected in operating expenses.

Capitalized software costs

The Company capitalizes costs related to internally developed software during the application development stage when (i) the preliminary project stage is completed, (ii) management has authorized further funding for the completion of the project, and (iii) it is probable that the project will be completed and performed as intended. Capitalized costs include costs of personnel and related expenses for employees and third parties directly attributable to the projects. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for significant upgrades and enhancements are also capitalized. Costs related to preliminary project activities and post implementation activities, including training, maintenance and minor modifications or enhancements are expensed as incurred. Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the developed asset, which is generally three to five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of the assets.

Software development is considered internal-use as it is used to design and sell the DIRTT products and is not included in the end client's product. Revenues received from Construction Partners for ICE Software are recognized as revenues as they are considered an element of the product sale. Any incidental third-party revenues received for the ICE Software are credited against capitalized software costs. The Company follows this accounting policy for cloud computing arrangements that are considered a service contract, however, these projects are capitalized to prepaids and other assets on the balance sheet and are expensed as an operating cost, as opposed to amortization, over the expected term of the software service contract.

Impairment of long-lived assets

Management evaluates the recoverability of the Company's property, plant and equipment, capitalized software costs and ROU assets when events or changes in circumstances indicate a potential impairment exists. Events and changes in circumstances considered by the Company in determining whether the carrying value of long-lived assets may not be recoverable include, but are not limited to, significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, and changes in the Company's business strategy. Impairment testing is performed at an asset level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (an "asset group"). In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Convertible Debentures

The Company accounts for convertible debentures as liabilities. Embedded features included in the convertible debentures that require bifurcation are accounted for separately. Costs incurred directly related to the issuance of convertible debentures are presented as a direct deduction against the carrying amount of the convertible debentures and are amortized to interest expense using the effective interest method.

Income taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in the consolidated statement of operations and comprehensive loss except to the extent it relates to items recognized directly in equity.

Current tax

Current tax expense is based on the results for the year, adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, the Company considers whether it is more likely than not that all or some portion of the Company's deferred tax assets will not be realized, based on management's judgment using available evidence about future events.

At times, tax benefits claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards.

Revenue recognition

The Company accounts for revenue in accordance with topic 606, Revenue from Contracts with Customers, ("ASC 606") and Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. Under ASC 606, an entity recognizes revenue in a manner that reflects the transfer of promised goods or services to customers in an amount which the entity expects to be entitled in exchange for those goods or services.

The Company recognizes revenue upon transfer of control of promised goods or services to customers at the transaction price, an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Transaction price is calculated as selling price net of variable consideration which may include estimates for sales incentives related to current period product revenue. Revenue is measured at the fair value of the consideration received or receivable, after discounts, rebates and sales taxes or income taxes and duties.

Product sales

The Company recognizes revenue upon transfer of control of products to the customer, which typically occurs upon shipment. The Company's main performance obligation to customers is the delivery of products in accordance with purchase orders. Each purchase order defines the transaction price for the products purchased under the arrangement. Construction Partners typically sell DIRTT product to end clients and issue purchase orders to the Company to manufacture the product. Construction Partners utilize ICE licenses to sell DIRTT products. The ICE licenses sold to Construction Partners are not considered a separate performance obligation as they are not distinct, and ICE license revenue is recognized in conjunction with product sales. The Construction Partner ICE Software revenue is recognized over the license period.

The Company's standard sales terms are Free On Board ("FOB") shipping point, which comprise the majority of sales. The Company usually requires a 50% progress payment on receipt of certain orders, excluding certain government orders or in some special contractual situations. Customer deposits received are recognized as a liability on the balance sheet until revenue recognition criteria is met. At the point of shipment, the customer is generally required to pay the balance of the sales price within 30 days. The Company's sales arrangements do not have any material financing components. In addition, the Company's customer arrangements do not produce contract assets that are material to its consolidated financial statements.

The Company provides sales commissions to internal and external sales representatives which are earned in the period in which revenue is recognized.

The Company accounts for product transportation revenue and costs as fulfillment activities and presents the associated costs in costs of goods sold in the period in which the Company sells its product.

Contracts containing multiple performance obligations

The Company offers certain arrangements whereby a customer can purchase products and installation together, which are generally capable of being distinct and accounted for as separate performance obligations. Where multiple performance obligations exist, the Company determines revenue recognition by (1) identifying the contract with the customer, (2) identifying the performance obligation in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations based on the relative standalone selling prices, typically based on cost plus a reasonable margin, and (5) recognizing revenue as the performance obligations are satisfied.

Installation and other services

The Company provides installation and other services for certain customers as a distinct performance obligation. Revenue from installation services is recognized over time as the service is performed.

Principal vs Agent Considerations

The Company evaluates the presentation of revenue on a gross vs. net basis based on whether it acts as a principal by controlling the product or service sales to customers. In certain instances, the Company facilitates contracting of certain sales on behalf of Construction Partners. The Company records these revenues on a gross basis when the Company is obligated to fulfill the service and has the risk associated with service delivery. The Company records these revenues on a net basis when the Construction Partner has the obligation to fulfill the services and has the risk associated with service delivery.

Construction Partner rebates

Rebates to Construction Partners (“Partner Rebates”) are accrued for and recognized as a reduction of revenue at the date of the sale to the customer. Partner Rebates include amounts collected directly by the Company owed to Construction Partners in accordance with their Construction Partner agreements, being the difference between the price to the end customer and the Construction Partners’ price. Other sales discounts are deducted immediately from sales invoices.

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. The Company records an unbilled receivable when revenue is recognized prior to invoicing. As the Company’s contracts are less than one year in duration, the Company has elected to apply the practical expedients to expense costs related to costs to obtain contracts and not disclose unfulfilled performance obligations. As deferred revenue and customer deposits are typically recognized during the year, the Company does not account for financing elements.

Warranties

The Company provides a warranty on all products sold to its clients and Construction Partner’s clients. Warranties are not sold separately to customers. Provisions for the expected cost of warranty obligations are recognized based on an analysis of historical costs for warranty claims relative to current activity levels and adjusted for factors based on management’s assessment that increase or decrease the provision. Warranty provision is recognized in cost of goods sold. Warranty claims have historically not been material and do not constitute a separate performance obligation.

Stock-based compensation

The Company follows the fair value-based approach to account for options, share awards and restricted share units (“RSUs”). Compensation expense and an increase in “Additional paid-in capital” are recognized for options and RSUs over their vesting period based on their estimated fair values on the grant date, as determined using the Black-Scholes option pricing model for the majority of options and the market value of the Company’s common shares on the grant date for share awards and RSUs. Certain executive stock options and RSUs have performance conditions and are valued using a Monte Carlo model.

On exercise of stock options and RSUs, the recorded fair value of the option or RSU is removed from “Additional paid-in capital” and credited to “Share capital”. For options, any consideration paid by employees is credited to “Share capital” when the option is exercised. The Company’s stock options and RSUs are not shares of the Company and have no rights to vote, receive dividends, or any other rights as a shareholder of the Company.

Stock-based compensation expense is also recognized for performance share units (“PSUs”) and deferred share units (“DSUs”) using the fair value method. Compensation expense is recognized over the vesting period and the corresponding amount is recorded as a liability on the balance sheet.

The Company measures the DSUs granted under the 2023 LTIP (the “New DSUs”) using the closing price of the Company’s common shares on the grant date as the present intention is to settle the New DSUs in equity. This is recognized as an increase to stock-based compensation and the corresponding liability on the balance sheet.

Technology and development expenditures

Technology and development expenses are comprised primarily of salaries and benefits associated with the Company's product and software development personnel which do not qualify for capitalization. These costs are expensed as incurred and exclude certain information and technology costs used in operations which are classified as general and administrative costs.

Government subsidies

The Company accounts for government subsidies on an accrual basis when the conditions for eligibility are met. The Company has adopted an accounting policy to present government subsidies as other income. The nature, significant terms and conditions of government subsidies are disclosed in the Financial Statements.

Earnings per share ("EPS")

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year and adjusted for any change in capital structure events triggering retroactive changes to weighted average number of common shares outstanding. Diluted earnings per share is calculated using the treasury stock method for determining the dilutive impact of stock options, RSUs, and New DSUs. The Company follows the "if converted" method for accounting for the impact of convertible debentures on net (loss) per share, whereby interest charges applicable to the convertible debentures are added to the numerator and the convertible debentures are assumed to have been converted at the beginning of the period (or time of issuance, if later), and the resulting common shares are added to the denominator.

Fair value of financial instruments

ASC 820, "Fair Value Measurements," requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the consolidated balance sheet, for which it is practicable to estimate fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company's fair value analysis is based on the degree to which the fair value is observable and grouped into categories accordingly:

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities.
- Level 2 financial instruments are those which can be derived from inputs that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 financial instruments include current and long-term debt. The carrying amounts of these instruments approximates fair value due to limited changes to interest rates and the Company's credit rating since issuance.
- Level 3 financial instruments are those derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). The Company does not have any Level 3 financial instruments.

The carrying amounts of cash and cash equivalents and restricted cash; trade and accrued receivables, other receivables; accounts payable and accrued liabilities; other liabilities; and customer deposits approximate fair value due to their short-term nature.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS ISSUED

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires an enhanced disclosure of significant segment expenses on an annual and interim basis. This guidance will be effective for the annual periods beginning the year ended December 31, 2024, and for interim periods beginning January 1, 2025. Early adoption is permitted. The Company has chosen to early adopt. Upon adoption, the guidance is applied retrospectively to all prior periods presented in the financial statements.

On December 14, 2023, the Financial Accounting Standards Board issued Accounting Standards Update No. 2023-09, "Improvements to Income Tax Disclosures" (the "ASU") further disaggregated information on an entity's tax rate reconciliation and income taxes paid. The amendments in this ASU are effective for fiscal years beginning after December 15, 2024, on a prospective basis with an option of retrospective application. The Company will continue to evaluate the impact of the adoption of this standard.

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.

4. LIQUIDITY

As at December 31, 2023, the Company had \$24.7 million of cash on hand and C\$13.6 million (\$10.3 million) of available borrowings (2022 – \$10.8 million and C\$7.2 million (\$5.3 million) of available borrowings). Through the year ended December 31, 2023, the Company generated \$14.8 million in cash flows from operations, compared to a cash usage of \$44.3 million over fiscal year 2022. The Company benefited from the receipt of \$7.3 million of government subsidies during 2023, compared to \$nil for the year ended December 31, 2022 (refer to Note 5).

We have implemented multiple price increases during the past two years to mitigate the impact of inflation on raw materials and improve liquidity. These actions have resulted in a meaningful improvement in our gross profit margins and have served to reduce our cash usage to operate the business. Gross profit for the year ended December 31, 2023, was \$59.5 million or 32.7% of revenue, compared to the same period in 2022, which generated gross profit of \$28.2 million or 16.4% of revenue.

Over the same period, we have also executed upon several initiatives. First, in May 2023, we entered into an agreement with AWI (refer to Note 7) resulting in the receipt of \$12.8 million of cash during 2023. Second, in March 2023, we entered into an agreement to sublease our Dallas DIRT Experience Center ("DXC") to one of our Construction Partners in that region. Under the sublease agreement, the subtenant has assumed responsibility for the monthly rent, utilities, maintenance, taxes and other costs as of April 1, 2023, through December 31, 2024, which will provide us annualized savings of approximately \$1 million. We are continuing to evaluate other properties for sale and leaseback or sublease opportunities and expect these strategic initiatives to result in positive cash inflows in 2024. Third, we completed a private placement of common shares in November 2022 for aggregate proceeds of \$2.8 million (the "Private Placement"), with certain significant shareholders and directors and officers of the Company, to bridge cash requirements before the completion and closing of the noted strategic transactions. The Company entered into irrevocable subscription agreements with its two largest shareholders, 22NW and 726 BC LLC and 726 BF (together "726" (which subsequently transferred its holdings to WWT)) and all the directors and officers of the Company on November 14, 2022, to issue 8.7 million shares for gross consideration of \$2.8 million. The Private Placement closed on November 30, 2022 (refer to Note 22).

On November 21, 2023, we announced the Rights Offering to common shareholders for aggregate gross proceeds of C\$30.0 million (the "Rights Offering"). The Rights Offering closed on January 9, 2024 (refer to Note 23).

While we are encouraged by our improved profitability and cash flow, we have continued to evaluate our fixed cost structure and overhead in light of macroeconomic uncertainty. We have implemented multiple reorganization initiatives (refer to Note 6) designed to align our cost structure with current expected levels of demand. In addition, the Company has reduced headcount by approximately 10% from January 2022 through December 2023.

We have assessed the Company's liquidity position as at December 31, 2023, taking into account our sales outlook for the next twelve-months, our existing cash balances and available credit facilities. Based on this analysis, we believe the Company has sufficient liquidity to support ongoing operations for at least the next twelve months.

5. GOVERNMENT SUBSIDIES

In the United States, the Employee Retention Credit (“ERC”) was established by Section 2301 of the Coronavirus Aid, Relief, and Economic Security Act to provide an incentive for employers to keep their employees on their payroll during COVID-19 closures. The ERC is a refundable payroll tax credit based on qualified wages paid by an eligible employer between March 12, 2020, and October 1, 2021, for companies experiencing a significant decline in gross receipts during a calendar quarter or having operations fully or partially suspended during the quarter due to COVID-19. During the third quarter of 2022, the Company determined it was eligible for the ERC for the first three quarters of 2021 and filed a claim for \$7.3 million in payroll tax credits (\$7.1 million net of expenses). As at December 31, 2023, the \$7.3 million of these claimed credits (plus an additional \$0.2 million of interest) have been received.

6. REORGANIZATION AND ASSETS HELD FOR SALE

Over the past two years, the Company has undertaken a number of reorganization initiatives:

Closure of Phoenix Aluminum Manufacturing Facility (the “Phoenix Facility”)

On February 22, 2022, we commenced the process of closing our Phoenix Facility, shifting related manufacturing to both our Savannah and Calgary aluminum manufacturing facilities. The closure of the Phoenix Facility was substantially completed in the second quarter of 2022. The Company entered into a sublease arrangement during the second quarter of 2022, commencing July 1, 2022, which exceeds the contractual lease commitments under the Right of Use assets.

Workforce Reductions, Board and Management Changes

In February and July of 2022, we announced our intention to eliminate a portion of our salaried workforce, including manufacturing and office positions, along with other cost reduction initiatives. The Company’s Board of Directors was reconstituted following a proxy contest in April 2022, which was deemed a change of control under the Company’s insurance policy resulting in additional insurance expenditures. Further, the Company made changes to several executive officer roles during the year ended December 31, 2022. During the year ended December 31, 2023, we continued to review costs, resulting in the elimination of additional salaried positions in the second and third quarters of 2023. These actions resulted in the Company incurring certain one-time termination costs.

Temporary Suspension of Operations and Subsequent Closure at the Rock Hill Facility

On August 23, 2022, we announced the temporary suspension of operations at our Rock Hill Facility, shifting related manufacturing to our Calgary manufacturing facility. Costs associated with this idle facility, included in costs of sales, were \$2.0 million (2022 - \$0.5 million).

On September 27, 2023, we announced our intention to permanently close the Rock Hill Facility. We plan to move certain assets to our other facilities and dispose of remaining assets. The assets to be disposed of have been reclassified and measured as assets held for sale (see table below). As a result of this decision, we incurred \$8.7 million of impairment charges associated with the transfer of assets from held for use to held for sale. We also expect to incur \$0.2 million of costs in dismantling and decommissioning the Rock Hill Facility assets. The Company will continue to maintain the Rock Hill Facility building lease and is pursuing a sublease arrangement. Based on prevailing market prices in the area, no impairment indicators exist for the Right of Use asset of \$6.7 million and the related leasehold improvements of \$2.7 million.

Reorganization costs incurred related to the above-mentioned initiatives:

	For the Year Ended December 31,	
	2023	2022
Termination benefits	2,162	7,042
Insurance costs on change of control	-	3,691
Phoenix Facility closure	99	756
Professional Services	-	1,021
Rock Hill Facility temporary suspension and closure of operations	295	129
Other costs	453	822
Total reorganization costs	3,009	13,461

Reorganization costs in accounts payable and accrued liabilities at January 1, 2023	2,277
Reorganization expense	3,009
Reorganization costs paid	(4,690)
Reorganization costs in accounts payable and accrued liabilities at December 31, 2023	596

Of the \$0.6 million payable, \$0.5 million relates to termination benefits and \$0.1 million relates to other reorganization costs (2022 - of the \$2.3 million payable, \$2.1 million relates to termination benefits and \$0.2 million relates to other reorganization costs).

Assets held for sale

Assets classified as held for sale as at December 31, 2023, of \$1.6 million consist of manufacturing equipment previously used in the Rock Hill Facility (refer to Note 11). As part of the decision to permanently close the Rock Hill Facility, \$10.3 million of assets were assessed against the assets held for sale criteria and reclassified from property, plant and equipment to assets held for sale in the third quarter of 2023. The assets are measured at the lower of the net book value versus the fair value less cost to sell resulting in an impairment charge of \$8.7 million. In the fourth quarter, the fair value was remeasured and an adjustment of \$(0.8) million was recorded. It is expected that these assets will be sold within the next twelve months.

	As at December 31,	
	2023	2022
Assets held for sale, opening	-	-
Net book value transferred from property, plant and equipment	10,271	-
Impairment charge on reassessment	(8,716)	-
Assets held for sale, ending	1,555	-

To move the assets or dispose of the assets at the Rock Hill Facility, the Company fully settled the principal balance of the U.S. leasing facility in the fourth quarter of 2023. Principal payments of \$7.8 million and interest penalties of \$0.4 million were incurred (refer to Note 14). As a result of this settlement, \$2.6 million of restricted cash was released to the Company in the fourth quarter of 2023.

Discontinuation of Reflect Product Line and Other Charges Incurred

In August 2022, the Company discontinued the Reflect and other product lines, resulting in a one-time inventory write-down of \$1.0 million, and an acceleration of amortization expense associated with ICE development for Reflect.

Additionally, the Company accelerated the depreciation of certain items of property, plant and equipment associated with the closure of the Phoenix Facility resulting in additional depreciation incurred in the first quarter of 2022.

These costs were included in cost of sales:

	For the Year Ended December 31,	
	2023	2022
Provision for inventory of discontinued product lines	-	1,035
Accelerated amortization associated with product line discontinuation	-	1,019
Accelerated depreciation and amortization associated with closure of the Phoenix Facility	-	1,054
Incremental cost of sales	-	3,108

7. GAIN ON SALE OF SOFTWARE

On May 9, 2023, we entered into the AWI Agreement and Partial Patent Assignment Agreement with AWI. The agreements provided for a cash payment from AWI to the Company of \$10.0 million, subject to certain routine closing conditions, in exchange for the partial assignment to AWI and resulting co-ownership of a 50% interest in the rights, title and interests in certain intellectual property rights in a portion of the ICE software that is used by AWI (the “Applicable ICE Code”), including a 50% interest in the patent rights that relate to the Applicable ICE Code. Pursuant to the AWI Agreement, we also provided AWI a transfer of knowledge concerning the source code of the Applicable ICE Code. In exchange for completing the knowledge transfer, we received additional cash payment of \$1.0 million in the fourth quarter of 2023. The AWI Agreement provides that we and AWI have separate exclusive fields of use and restrictive covenants with respect to the Applicable ICE Code and related intellectual property, which survive until either party elects to separate from its relationship with the other and for five years thereafter. We concurrently entered into an Amended and Restated Master Services Agreement (the “ARMSA”) with AWI, under which AWI has also prepaid certain development services to be provided by DIRTT. The ARMSA will automatically terminate if the AWI Agreement is terminated or expires and may also be terminated if either party breaches the exclusive fields of use or restrictive covenants in the AWI Agreement.

The \$11.0 million of proceeds on the sale of the 50% interest in the Applicable ICE code, pursuant to the AWI Agreement, was received during the year ended December 31, 2023. In accordance with GAAP, the proceeds were first applied to the net book value of the related cost of software of \$2.9 million and patents (other assets) of \$0.9 million. The residual amount of \$7.1 million was recognized as a gain in the consolidated statement of operations. Further, \$1.8 million was received as a prepayment under the ARMSA, which is recognized into revenue as the performance obligation is met. During the year ended December 31, 2023, \$1.6 million of the \$1.8 million payment was recognized into revenue and \$0.2 million remains a customer deposit to be recognized as revenue in the first quarter of 2024. Part of the proceeds of this transaction was used to settle one of our equipment leases of \$1.6 million and resulted in the release of \$0.4 million of restricted cash (refer to Note 14).

8. LEASES

The Company leases office and factory space under various operating leases. As the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company gives consideration to instruments with similar characteristics when calculating its incremental borrowing rate. The Company’s operating leases have remaining lease terms of 1 year to 14 years. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The weighted average remaining lease term and weighted average discount rate at December 31, 2023, was nine years (2022 - thirteen years) and 6.3% (2022 – 4.9%), respectively.

The Company entered into a sublease arrangement for part of the Phoenix Facility during the second quarter of 2022, commencing July 1, 2022. Additionally, the Company entered into a sublease agreement for the Dallas DXC to one of our Construction Partners in that region, in which the subtenant has assumed responsibility for all monthly rent, utilities, maintenance, taxes and other costs as of April 1, 2023, through December 31, 2024.

The following table includes ROU assets included on the balance sheet at December 31, 2023 and 2022:

	ROU Assets		
	Cost	Accumulated depreciation	Net book value
At January 1, 2022	44,055	(13,175)	30,880
Additions	139	-	139
Modifications	4,809	50	4,859
Depreciation expense	-	(5,057)	(5,057)
Exchange differences	(943)	611	(332)
At December 31, 2022	48,061	(17,571)	30,490
Disposals	(2,667)	2,308	(359)
Modifications	3,866	(196)	3,670
Depreciation expense	-	(4,312)	(4,312)
Exchange differences	596	(272)	324
At December 31, 2023	49,856	(20,043)	29,813

The components of the lease cost for the years ended December 31, 2023 and 2022 were as follows:

	For the year ended December 31,	
	2023	2022
Operating lease cost ⁽¹⁾		
Fixed lease cost	6,688	6,719
Sublease income	(1,393)	(344)
Total operating lease cost	5,295	6,375

⁽¹⁾ The lease costs, net of sublease income, are reflected in the Consolidated Statements of Operations and Comprehensive Loss as follows:

	For the year ended December 31,	
	2023	2022
Cost of goods sold	4,427	4,647
Selling and marketing	793	1,356
General and administrative	(113)	107
Technology and development	188	265
Total operating lease cost	5,295	6,375

The following table includes lease liabilities included on the balance sheet at December 31, 2023 and 2022:

	Lease Liability	
	2023	2022
At January 1,	33,423	33,481
Additions	-	139
Disposals	(406)	-
Modifications	3,866	4,809
Accretion	2,272	1,722
Repayment of lease liabilities	(5,942)	(6,558)
Lease inducements	-	124
Exchange differences	243	(294)
At December 31,	33,456	33,423
Current lease liabilities	5,255	5,889
Long-term lease liabilities	28,201	27,534

In February 2023, the Company modified an existing agreement for a Calgary manufacturing facility to extend the leasing term for an additional five years. An extension option period of five years was also determined to be more likely than not to occur. Undiscounted cash flows associated with this modification are \$16.3 million. The rent obligations have been discounted at a rate of 8.58% to determine the lease liability.

In May 2023, the Company modified an existing agreement through early termination for the Seattle DXC. This amendment caused the derecognition of the lease, albeit DIRTT maintaining guarantor status for the remainder of the original lease term which terminates in August 2027. Undiscounted cash flows associated with this modification were \$0.5 million.

On September 27, 2023, we announced our intention to permanently close the Rock Hill Facility (refer to Note 6). As a result of this decision, DIRTT no longer assumes the two five-year extension options under the related property lease will be exercised.

Undiscounted cash flows associated with this modification were \$13.7 million. The rent obligations have been discounted at a rate of 6.77% to determine the lease liability.

The following table includes maturities of operating lease liabilities at December 31, 2023:

2024	5,424
2025	6,051
2026	5,491
2027	4,375
2028	3,834
Thereafter	19,929
Total	45,104
Total lease liability	33,456
Difference between undiscounted cash flows and lease liability	11,648

9. TRADE AND ACCRUED RECEIVABLES 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 December 31, 2023, approximately 93% 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. In addition, and where possible, we collect a 50% deposit on sales, excluding government and certain other clients.

Our trade balances are spread over a broad Construction Partner base, which is geographically dispersed. For the year ended December 31, 2023, one Construction Partner accounted for greater than 10% of revenue, compared to 2022 in which no Construction Partner accounted for greater than 10% of revenue.

	As at December 31,	
	2023	2022
Current	12,070	12,381
Overdue	3,818	1,675
	15,888	14,056
Less: expected credit losses	(101)	(126)
	15,787	13,930

No change to our expected credit loss was required during the year ended December 31, 2023, or December 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.

10. INVENTORY

	As at December 31,	
	2023	2022
Raw material	16,787	22,218
Allowance for obsolescence	(1,666)	(1,242)
Work in progress	1,456	1,275
	16,577	22,251

As of December 31, 2023, the Company had \$1.7 million (2022 - \$1.2 million) provided for inventory that is not expected to be used in future production and the associated expense was recorded to cost of goods sold. During 2023, the Company wrote off \$1.0 million of inventory against the provision (2022 - \$0.5 million) and increased the allowance for obsolescence by \$0.4 million (2022 - \$0.9 million). In addition, the Company recorded direct write offs against inventory of \$0.5 million (2022 - \$0.3 million). Production overheads capitalized in work in progress were \$0.2 million at December 31, 2023 (2022 - \$0.2 million).

Additional costs included in cost of goods sold

During 2021, the Company experienced periods where it was operating below normal capacity levels. During that period, overheads included in inventory were not increased and \$1.8 million was included in cost of sales. In 2022, we temporarily suspended operations at the Rock Hill Facility. On September 27, 2023, we announced our intention to permanently close the Rock Hill Facility. As of December 31, 2023, the Company leases the Rock Hill Facility and is actively pursuing sublease arrangements. Idle facility costs being incurred at the Rock Hill Facility are included in cost of sales.

	For the Year Ended December 31,		
	2023	2022	2021
Under-utilized capacity	-	-	1,756
Idle facility costs	1,977	506	-
	1,977	506	1,756

Change in presentation in Consolidated Statement of Operations

	For the Year Ended December 31,		
	2023	2022	2021
Product cost of sales, as previously presented	119,728	140,058	118,525
Cost of under-utilized capacity, as previously presented	-	-	1,756
Product cost of sales, per Statement of Operations	119,728	140,058	120,281

11. PROPERTY, PLANT AND EQUIPMENT, NET

	Office and computer equipment	Factory equipment	Leasehold improvements	Total
Cost				
At December 31, 2021	28,646	71,484	47,567	147,697
Additions	738	775	341	1,854
Disposals	(1,347)	(2,983)	(6,688)	(11,018)
Exchange differences	(581)	(3,167)	(1,457)	(5,205)
At December 31, 2022	27,456	66,109	39,763	133,328
Additions	790	320	132	1,242
Disposals	(127)	(375)	(2,186)	(2,688)
Transferred to assets held for sale	-	(13,260)	-	(13,260)
Exchange differences	6	870	619	1,495
At December 31, 2023	28,125	53,664	38,328	120,117
Accumulated depreciation and impairment				
At December 31, 2021	19,981	39,271	36,748	96,000
Depreciation expense	2,355	4,425	3,680	10,460
Disposals	(1,272)	(2,831)	(6,688)	(10,791)
Exchange differences	(540)	(2,044)	(1,279)	(3,863)
At December 31, 2022	20,524	38,821	32,461	91,806
Depreciation expense	2,041	3,661	1,824	7,526
Disposals	(127)	(272)	(2,098)	(2,497)
Transferred to assets held for sale	-	(2,989)	-	(2,989)
Exchange differences	124	687	383	1,194
At December 31, 2023	22,562	39,908	32,570	95,040
Net book value				
At December 31, 2022	6,932	27,288	7,302	41,522
At December 31, 2023	5,563	13,756	5,758	25,077

As at December 31, 2023, the Company had \$0.2 million of assets in progress of completion which were excluded from assets subject to depreciation (2022 – \$0.1 million).

During the year ended December 31, 2022, depreciation expense included \$1.1 million of incremental depreciation on the acceleration of useful lives associated with the closing of the Phoenix Facility. The year ended December 31, 2023, did not include any significant amounts related to accelerated depreciation (refer to Note 6).

On September 27, 2023, the Company announced its intention to permanently close the Rock Hill Facility in South Carolina. \$10.3 million of manufacturing equipment at Rock Hill was transferred to assets held for sale (refer to Note 6).

As at December 31, 2023, the Company determined that there were no impairment indicators warranting an impairment test.

During the year ended December 31, 2022, the Company has incurred negative cash flows from operations and accordingly management determined that this was an indicator of impairment for property, plant and equipment assets. The Company estimated the undiscounted cash flows to be generated from the use and ultimate disposition of the property, plant and equipment assets. To estimate the undiscounted cash flows of the reporting unit, the Company applied the income approach. Sales and cost projections were based on assumptions driven by current economic conditions. The Company considered various scenarios and probability-weighted the likelihood of each scenario in determining the reporting unit's fair value. The average compounded annual growth rate of revenues was 5%-10%. Other key assumptions used in the quantitative assessment of the reporting unit's undiscounted cashflows was terminal growth rate of 2%. The Company estimated the undiscounted cash flows to be generated from the use and ultimate disposition of the property, plant and equipment assets. The results of the test indicated that the undiscounted cash flows exceeded the carrying values of property, plant and equipment, therefore, no impairment charge was required at December 31, 2022.

12. CAPITALIZED SOFTWARE, NET

	For the Year Ended December 31,	
	2023	2022
Cost		
As at January 1	34,546	37,492
Additions	1,794	1,677
Recovery of software development expenditures	(127)	(263)
Disposals	(6,641)	(1,990)
Exchange differences	680	(2,370)
As at December 31	30,252	34,546
Accumulated amortization		
As at January 1	30,140	30,097
Amortization expense	840	3,887
Disposals	(3,766)	(1,916)
Exchange differences	588	(1,928)
As at December 31	27,802	30,140
Net book value	2,450	4,406

The disposal of capitalized software in 2023 with a net book value of \$2.9 million, relates to the AWI transaction (refer to Note 7).

Estimated amortization expense on capitalized software is \$0.8 million in 2024, \$0.8 million in 2025, \$0.5 million in 2026, \$0.3 million in 2027, and \$0.1 million in 2028.

During the year ended December 31, 2022, amortization expense was impacted by \$1.0 million of incremental amortization on the acceleration of useful lives associated with discontinued product lines (refer to Note 6). Amortization expense for the year ended December 31, 2023, was not impacted by any incremental amortization of this kind.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND OTHER LIABILITIES

	As at December 31	
	2023	2022
Trade accounts payable ⁽²⁾	12,378	8,944
Accrued liabilities ⁽²⁾	5,500	5,394
Wages and commissions payable	1,688	3,410
Rebates accrued ⁽¹⁾	314	2,133
	19,880	19,881

⁽¹⁾ In 2023, \$2.6 million of rebates were earned (2022 - \$4.8 million) and \$4.4 million were paid (2022 - \$3.7 million).

⁽²⁾ In 2022, \$3.4 million of trade accruals were previously included in the Accrued liabilities balance.

Other liabilities

	As at December 31,	
	2023	2022
Warranty provisions ⁽¹⁾	873	1,278
DSU liability	1,086	594
Income taxes payable	289	-
Sublease deposits	184	139
Other provisions	50	45
Other liabilities	2,482	2,056

(1) The following table presents a reconciliation of the warranty provisions balance:

	As at December 31,	
	2023	2022
As at January 1	1,278	1,451
Additions to warranty provision	1,208	1,134
Payments related to warranties	(1,613)	(1,307)
	873	1,278

14. LONG-TERM DEBT

	Revolving Credit Facility	Leasing Facilities	Convertible Debentures	Total Debt
Balance at December 31, 2021	-	13,909	56,733	70,642
Issuances	-	647	-	647
Accretion of issue costs	-	-	676	676
Accrued interest	-	735	3,539	4,274
Interest payments	-	(735)	(3,688)	(4,423)
Principal repayments	-	(2,470)	-	(2,470)
Exchange differences	-	(274)	(3,637)	(3,911)
Balance at December 31, 2022	-	11,812	53,623	65,435
Current portion of long-term debt and accrued interest	-	2,561	745	3,306
Long-term debt	-	9,251	52,878	62,129
Balance at December 31, 2022	-	11,812	53,623	65,435
Accretion of issue costs	-	-	698	698
Accrued interest	-	526	3,411	3,937
Interest payments	-	(526)	(3,451)	(3,977)
Principal repayments	-	(11,579)	-	(11,579)
Exchange differences	-	251	1,343	1,594
Balance at December 31, 2023	-	484	55,624	56,108
Current portion of long-term debt and accrued interest	-	79	762	841
Long-term debt	-	405	54,862	55,267

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”). Interest was 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 was 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). 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 offset any borrowings and any remaining amounts made available to the Company.

On February 9, 2023, the Company extended the RBC Facility (the “Extended RBC Facility”). The Extended RBC Facility has a maximum borrowing base of C\$15 million and a one-year term. Interest is calculated as at the Canadian or U.S. prime rate plus 75 basis points or the Canadian Dollar Offered Rate or Term Secured Overnight Financing Rate (“SOFR”) plus 200 basis points plus the Term SOFR Adjustment (as defined in the amended loan agreement governing the Extended RBC Facility). Under the Extended RBC Facility, if the trailing twelve-month FCCR is not above 1.25 for three consecutive months, a cash balance equivalent to one year’s worth of Leasing Facilities payments must be maintained. Effective October 2023, inventory was scoped out of the Borrowing Base. At December 31, 2023, available borrowings are C\$13.6 million (\$10.3 million) (2022 – C\$7.2 million (\$5.3 million) of available borrowings), calculated in the same manner as the RBC Facility described above, of which no amounts have been drawn. The Company did not meet the three-month FCCR requirement during the year end 2023, which resulted in the restriction of \$0.4 million of cash (2022 - \$3.4 million).

On February 9, 2024, the Company extended the Extended RBC Facility (the “Second Extended RBC Facility”). The Second Extended RBC Facility is subject to the borrowing base calculation to a maximum of C\$15 million and a one-year term. Interest is calculated as at the Canadian or U.S. prime rate plus 75 basis points or at the Canadian Dollar Offered Rate or Adjusted Term CORRA or Term SOFR plus the Term SOFR Adjustment, in each case plus 200 basis points.

Leasing Facilities

The Company has a C\$5.0 million equipment leasing facility in Canada (the “Canada Leasing Facility”) of which C\$4.4 million (\$3.4 million) has been drawn and C\$3.8 million (\$2.9 million) has been repaid, and a \$14.0 million equipment leasing facility in the United States of which \$13.3 million has been drawn and repaid (the “U.S. Leasing Facility” and, together with the Canada Leasing Facility, the “Leasing Facilities”) with RBC. The Canada Leasing Facility has a seven-year term and bears interest at 4.25%.

The Company did not make any draws on the Leasing Facilities during 2023. During the year ended December 31, 2022, the Company received C\$0.9 million (\$0.7 million) under the Canada Leasing Facility. The associated financial liabilities are shown on the consolidated balance sheet in the current portion of long-term debt and accrued interest and long-term debt.

As part of RBC’s consent to the AWI transaction (refer to Note 7), one of the Canadian lease agreements of \$1.6 million was fully settled using AWI proceeds. This resulted in the release of \$0.4 million of restricted cash associated with the one year of payments on this lease, as described above.

Refer to Note 6 on the decision to permanently close the Rock Hill Facility. As part of this decision, the Company fully settled the \$7.8 million principal balance of the U.S. Leasing Facility in the fourth quarter of 2023. The U.S. Leasing Facility is no longer available to be drawn on. With the settlement of this liability, \$2.6 million was released from restricted cash.

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 over-allotment 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. Costs of the transaction were approximately C\$2.7 million, including the underwriters’ commission. 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 Debentures 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. Subsequent to the Rights Offering (refer to Note 23), the conversion price is now C\$4.03 per common share representing a conversion rate of approximately 248.1390 common shares per C\$1,000 principal amount of the January Debentures. As at December 31, 2023, C\$18.9 million of the January Debentures are held by a related party (refer to Note 22).

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. Costs of the transaction were approximately C\$2.3 million, including the underwriters’ commission. 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. Subsequent to the Rights Offering (refer to Note 23), the conversion price is now C\$3.64 per common share representing a conversion rate of approximately 274.7253 common shares per C\$1,000 principal amount of the December Debentures. As at December 31, 2023, C\$13.6 million of the December Debentures are held by a related party (refer to Note 22).

15. INCOME TAXES

Reconciliation of income taxes

The following reconciles income taxes calculated at the Canadian statutory rate with the actual income tax expense. The Canadian statutory rate includes federal and provincial income taxes. This rate was used because Canada is the domicile of the parent entity of the Company.

	For the Year Ended December 31,		
	2023	2022	2021
Net loss before tax	(14,252)	(54,942)	(53,872)
Canadian statutory rate	24.6%	24.4%	23.3%
Expected income tax	(3,506)	(13,406)	(12,552)
Effect on taxes resulting from:			
Valuation allowance	4,224	13,590	12,046
Non-deductible expenses	189	422	542
Non-deductible stock-based compensation	-	23	189
Tax rate impacts	(243)	(665)	(488)
Adjustments related to prior year tax filings	(332)	57	59
Income tax expense	332	21	(204)
Current tax expense	332	21	210
Deferred tax recovery	-	-	(414)
Income tax expense	332	21	(204)

The provision for income taxes is comprised of federal, state, provincial and foreign taxes based on pre-tax income. In the United States, the CARES Act of 2020 allows, among other provisions, for the recovery of taxes paid over the preceding five years from current year losses.

The Company’s U.S. subsidiary’s result was taxable income for the year ended December 31, 2023. The Company utilized prior year operating losses against this income; however, U.S. tax law does not allow for the full offset of losses against current year taxable income to reduce tax payable to zero. This resulted in current tax payable of \$0.3 million in 2023.

Deferred tax assets and liabilities

Significant components of the Company's deferred tax assets and liabilities as at December 31, 2023 and 2022 were as follows:

As at December 31, 2023			
	Assets	Liabilities	Net
Operating losses	35,690	-	35,690
Research and development expenditures	367	-	367
Property and equipment	-	(3,883)	(3,883)
Capitalized software and other assets	-	(1,033)	(1,033)
Valuation allowance	-	(34,529)	(34,529)
Other	3,388	-	3,388
Net deferred taxes	39,445	(39,445)	-

As at December 31, 2022			
	Assets	Liabilities	Net
Operating losses	33,740	-	33,740
Research and development expenditures	336	-	336
Property and equipment	-	(6,017)	(6,017)
Capitalized software and other assets	-	(1,599)	(1,599)
Valuation allowance	-	(29,812)	(29,812)
Other	3,352	-	3,352
Net deferred taxes	37,428	(37,428)	-

Summary of temporary difference movements during the year:

	Balance January 1, 2023	Recognized in Income	Foreign Exchange	Balance December 31, 2023
Operating losses	33,740	1,431	519	35,690
Research and development expenditures	336	22	9	367
Property and equipment	(6,017)	2,182	(48)	(3,883)
Capitalized software and other assets	(1,599)	583	(17)	(1,033)
Valuation allowance	(29,812)	(4,224)	(493)	(34,529)
Other	3,352	6	30	3,388
Net deferred taxes	-	-	-	-

	Balance January 1, 2022	Recognized in Income	Foreign Exchange	Balance December 31, 2022
Operating losses	24,032	10,924	(1,216)	33,740
Research and development expenditures	362	(3)	(23)	336
Property and equipment	(7,572)	1,410	145	(6,017)
Capitalized software and other assets	(2,023)	311	113	(1,599)
Valuation allowance	(17,291)	(13,590)	1,069	(29,812)
Other	2,492	948	(88)	3,352
Net deferred taxes	-	-	-	-

For the year ended December 31, 2023, the Company recorded valuation allowances of \$4.2 million against deferred tax assets ("DTAs") incurred during the year. A valuation allowance is recognized to the extent that it is more likely than not that the deferred tax assets will not be realized (2022 – \$13.6 million).

On an annual basis, the Company and its subsidiary file tax returns in Canada and various foreign jurisdictions. In Canada, the Company's federal and provincial tax returns for the years 2019 to 2022 remain subject to examination by taxation authorities. In the United States, both the federal and state tax returns filed for the years 2018 to 2022 remain subject to examination by the taxation authorities.

Tax loss carryforwards and other tax pools

The significant components of the Company's net future income tax deductions in these consolidated financial statements are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	C\$	C\$	\$	\$
Non-capital loss carry-forwards	114,119	106,730	55,469	55,654
Undepreciated capital costs	3,903	9,207	5,626	9,765
Share issuance costs	2,454	3,603	-	-
Scientific research and experimental development tax incentives	1,971	1,971	-	-
Total future tax deductions	122,447	121,511	61,095	65,419

16. STOCK-BASED COMPENSATION

In May 2020, shareholders approved the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (the "2020 LTIP"). The 2020 LTIP replaced the predecessor incentive plans, being the Performance Share Unit Plan ("PSU Plan") and the Amended and Restated Stock Option Plan ("Stock Option 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.

In May 2023, shareholders approved the DIRTT Environmental Solutions Ltd. Amended and Restated Long-Term Incentive Plan (the "2023 LTIP") at the annual and special meeting of shareholders. The 2023 LTIP gives the Company the ability to award options, share appreciation rights, restricted share units, deferred share units, restricted shares, dividend equivalent rights, 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 2023 LTIP, the sum of (i) 12,350,000 common shares plus (ii) the number of common shares subject to stock options previously granted under the Stock Option Plan that, following May 30, 2023, expire or are cancelled or terminated without having been exercised in full, have been reserved for issuance under the 2023 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.

Deferred share units ("DSUs") have historically been granted to non-employee directors under the Deferred Share Unit Plan for Non-Employee Directors (as amended and restated, the "DSU Plan") and settleable only in cash. The 2023 LTIP gives the Company the ability to settle DSUs in either cash or common shares, while consolidating future share-based awards under a single plan. The terms of the DSU Plan are otherwise materially unchanged as incorporated into the 2023 LTIP. Effective May 30, 2023, no new awards will be made under the DSU Plan, but awards previously granted under the DSU Plan will continue to be governed by the DSU Plan. DSUs are settled following cessation of services with the Company.

Stock-based compensation expense

	<u>For the Year Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Equity-settled awards	2,331	3,943	4,453
Cash-settled awards	(25)	334	260
	2,306	4,277	4,713

The following summarizes RSUs, Share Awards, 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
Outstanding at December 31, 2021	3,216,536	1,021,739	-	157,200	361,577
Granted	2,157,149	863,279	222,170	-	1,305,658
Vested or settled	(2,199,034)	(796,011)	(154,016)	-	(501,916)
Withheld to settle employee tax obligations	(526,346)	(242,460)	(68,154)	-	-
Forfeited	(762,968)	(502,628)	-	(157,200)	-
Outstanding at December 31, 2022	1,885,337	343,919	-	-	1,165,319
Granted	3,599,500	-	522,883	2,584,161	2,276,731
Vested or settled	(1,105,225)	(258,760)	(522,883)	-	(355,878)
Withheld to settle employee tax obligations	(64,230)	-	-	-	-
Forfeited	(783,655)	(21,130)	-	(738,553)	-
Expired	(1,163)	-	-	-	-
Outstanding at December 31, 2023	3,530,564	64,029	-	1,845,608	3,086,172

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 (the “RSUs”). At the end of a three-year term, the associated 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 in 2023 was C\$0.46 (2022 – C\$2.37), which was determined using the closing price of the Company’s common shares on their respective grant dates. During 2023, 150,000 RSUs were granted to each of the chief executive officer, chief operations officer and chief financial officer which vest in one year.

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 or on their departure, based on terms agreed. All PRSUs awarded in 2020 were awarded to a single executive who forfeited those awards in January 2022 upon departure 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%	66.7%	100.0%	150.0%
2021 and 2022 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. In the fourth quarter of 2022, 59,488 Share Awards were issued to employees as a component of their compensation.

In the first quarter of 2023, 36,254 Share Awards were issued to a consultant as compensation for services rendered. During the second quarter of 2023, certain executives were issued Share Awards in lieu of cash paid variable incentive compensation. These Share Awards vested upon grant. The fair value of the Share Awards granted was C\$0.49 (\$0.34), which was determined using the closing price of the Company's common shares on the grant date.

Performance share units

During the second quarter of 2023, certain executives were issued a strategic equity grant through Performance Share Units ("PSUs"). The performance period of the PSUs is from January 1, 2023, to December 31, 2026, with a cliff vesting term for December 31, 2026. 2,584,161 PSUs were granted and depending on the level of performance, the PSUs will vest 100%, 160% or 190% up to a maximum of 4,909,907 PSUs. Settlement will be made in the form of shares issued from treasury. The performance measures are a combination of Revenue and Earnings Before Interest, Taxes, Depreciation and Amortization and both targets have to be achieved. As of December 31, 2023, the fair value of these PSUs have been deemed to be nil based on the likelihood of achieving the targets compared to current results. During the third quarter of 2023, 738,553 PSUs with a \$nil value were forfeited as a result of an executive departure and 1,845,608 PSUs with a \$nil value are outstanding as at December 31, 2023.

Deferred share units

Granted under the DSU Plan

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 the statement of operations and comprehensive loss for the period. The weighted average fair value of the DSUs granted in 2023 was C\$0.63 (\$0.47), which was determined using the closing price of the Company's common shares on the grant date. DSUs outstanding at December 31, 2023, had a fair value of \$0.5 million which is included in other liabilities on the balance sheet (2022 – \$0.6 million).

Granted under the 2023 LTIP

DSUs granted after May 30, 2023, (the "New DSUs") will be settled by way of the provision of cash or shares (or a combination thereof) to the Directors, at the discretion of the Company. The Company intends to settle these DSUs through issuances of common shares. The weighted average fair value of the New DSUs granted in 2023 was C\$0.46 (\$0.34), which was determined using the closing price of the Company's common shares on the grant date. New DSUs outstanding at December 31, 2023, had a fair value of \$0.6 million which is included in other liabilities on the balance sheet (2022 – \$nil).

Options

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

	Number of options	Weighted average exercise price C\$
Outstanding at December 31, 2021	4,064,489	6.64
Forfeited or expired	(2,584,420)	6.41
Outstanding at December 31, 2022	1,480,069	7.03
Forfeited or expired	(1,270,660)	7.00
Outstanding at December 31, 2023	209,409	7.71
Exercisable at December 31, 2023	209,409	7.71

Range of exercise prices outstanding at December 31, 2023:

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\$6.01 – C\$7.00	16,350	0.71	\$ 6.12	16,350	0.71	\$ 6.12
C\$7.01 – C\$8.00	193,059	0.38	\$ 7.84	193,059	0.38	\$ 7.84
Total	209,409			209,409		

Range of exercise prices outstanding at December 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\$6.00	15,025	1.89	4.12	15,025	1.89	4.12
C\$6.01 – C\$7.00	758,142	1.07	6.33	758,142	1.07	6.33
C\$7.01 – C\$8.00	706,902	1.37	7.84	706,902	1.37	7.84
Total	1,480,069			1,480,069		

Dilutive instruments

For the year ended December 31, 2023, 0.2 million options (2022 – 1.5 million, 2021 – 4.1 million) and 3.6 million RSUs and PRSUs (2022 – 2.2 million, 2021 – 3.4 million), 1.8 million new DSUs (2022 and 2021 – nil) and 156.8 million shares which would be issued if the principal amount of the Debentures were settled in our common shares at the year-end share price (2022 – 109.1 million and 2021 – 27.4 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.

17. NET LOSS PER SHARE

On November 21, 2023, the Company announced a Rights Offering which allowed holders of common shares, as of the close of business on December 12, 2023, transferable subscription rights to purchase up to an aggregate of 85,714,285 common shares at a subscription price of C\$0.35 per common share (refer to Note 23). An adjustment is required on the calculation of net loss per share for the year ended December 31, 2023, as well as retrospectively for the years ended December 31, 2022 and December 31, 2021, to account for the bonus factor that resulted from this event.

	For the year ended December 31,		
	2023	2022	2021
Net loss per share – basic and diluted			
Net loss after tax (thousands of U.S. dollars)	\$ (14,584)	\$ (54,963)	\$ (53,668)
Weighted average number of shares outstanding (thousands of shares as previously reported)	101,984	87,662	85,027
Weighted average number of shares outstanding (thousands of shares restated)	116,135	99,826	96,826
Net loss per share – basic and diluted (as previously calculated, prior to Rights Offering)	\$ (0.14)	\$ (0.63)	\$ (0.63)
Net loss per share – basic and diluted (as on the Consolidated Statement of Comprehensive Income)	\$ (0.13)	\$ (0.55)	\$ (0.55)

18. REVENUE

In the following table, revenue is disaggregated by performance obligation and timing of revenue recognition. All revenue comes from contracts with customers. Refer to Note 19 for the disaggregation of revenue by geographic region.

	For the Year Ended December 31,		
	2023	2022	2021
Product	158,405	147,448	129,031
Transportation	17,674	18,030	13,231
License fees from Construction Partners	840	778	738
Total product revenue	176,919	166,256	143,000
Installation and other services	5,012	5,905	4,593
	181,931	172,161	147,593

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 from fixed-price contracts is based upon agreed contractual terms with each customer and is not subject to variability.

	For the Year Ended December 31,		
	2023	2022	2021
At a point in time	176,079	165,478	142,262
Over time	5,852	6,683	5,331
	181,931	172,161	147,593

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

Contract Liabilities

	As at December 31,		
	2023	2022	2021
Customer deposits	5,290	4,458	1,959
Deferred revenue	-	408	461
Contract liabilities	5,290	4,866	2,420

Contract liabilities primarily relate to deposits received from customers and maintenance revenue from license subscriptions. The balance of contract liabilities was higher as at December 31, 2023, compared to the prior year period mainly due to the timing of orders and payments. Contract liabilities as at December 31, 2022 and 2021, respectively, totaling \$4.9 million and \$2.4 million were recognized as revenue during 2023 and 2022, respectively.

Sales by Industry

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

	For the Year Ended December 31,		
	2023	2022	2021
Commercial	116,693	115,102	84,488
Healthcare	33,970	19,739	30,130
Government	13,446	16,564	16,012
Education	11,970	14,073	11,632
License fees from Construction Partners	840	778	738
Total product and transportation revenue	176,919	166,256	143,000
Installation and other services	5,012	5,905	4,593
	181,931	172,161	147,593

19. 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. 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

	For the Year Ended December 31,		
	2023	2022	2021
Canada	19,934	25,477	17,299
U.S.	161,997	146,684	130,294
	181,931	172,161	147,593

Non-current assets

	As at December 31,	
	2023	2022
Canada	30,033	28,251
U.S.	30,759	53,277
	60,792	81,528

The DIRTT solution segment derives revenues from customers by providing physical products and digital tools through our ICE software to create interior spaces for our customers across commercial, healthcare, education and government industries. The accounting policies of the solution segment are the same as those described in Note 2 - significant accounting policies.

The chief operating decision maker assesses performance for the solution segment and decides how to allocate resources based on gross profit and net loss that also is reported on the consolidated statement of operations and comprehensive loss as consolidated gross profit and net loss. The measure of segment assets is reported on the balance sheet as total consolidated assets. The chief operating decision maker uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the solution segment or into other parts of the entity, such as to repay long term debt.

Gross profit and net income (loss) are used to monitor budget versus actual results. The chief operating decision maker also uses net income in competitive analysis by benchmarking to DIRTT's competitors. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation.

DIRTT has one reportable segment: Solutions. The solutions segment provides digital tools (access to ICE software) and physical products to create modular interior construction spaces for our customers. DIRTT derives revenue in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to, and implemented by, customers in a similar manner. DIRTT's chief operating decision maker is the executive leadership team that includes the chief operating officer, chief financial officer, and the chief executive officer.

20. COMMITMENTS

As at December 31, 2023, the Company had outstanding purchase obligations of approximately \$2.8 million related to inventory and property, plant and equipment purchases (2022 – \$2.2 million). Refer to Note 8 for lease commitments.

21. LEGAL PROCEEDINGS

The Company is pursuing multiple lawsuits against its 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 non-competition and non-solicitation covenants contained in their executive employment agreements, and the misappropriation of DIRTT's confidential and proprietary information in violation of numerous Canadian and U.S. state, and federal laws pertaining to the protection of DIRTT's trade secrets and proprietary information and the prevention of false advertising and deceptive trade practices.

As of December 31, 2023, the Company's litigation against Falkbuilt, Messrs. Smed and Loberg, and their associates was comprised of three main lawsuits: (i) an action in the Alberta Court of King's Bench instituted on May 9, 2019, against Falkbuilt, Messrs. Smed and Loberg, and several other former DIRTT employees alleging breaches of restrictive covenants, fiduciary duties, and duties of loyalty, fidelity and confidentiality, and the misappropriation of DIRTT's confidential information (the "Canadian Non-Compete Case"); (ii) an action in the U.S. District Court for the Northern District of Utah instituted on December 11, 2019, against Falkbuilt, Smed, and other individual and corporate defendants alleging misappropriation of DIRTT's confidential information, trade secrets, business intelligence and customer information (the "Utah Misappropriation Case"); and (iii) an action in the U.S. District Court for the Northern District of Texas instituted on June 24, 2021, alleging that Falkbuilt has unlawfully used DIRTT's confidential information in the United States and intentionally caused confusion in the United States in an attempt to steal customers, opportunities, and business intelligence, with the aim of establishing a competing business in the United States market (the "Texas Unfair Competition Case"). DIRTT intends to pursue the cases vigorously. We recently requested the Court of King's Bench of Alberta to schedule the summary judgment application for our Canadian litigation. The court has proposed three potential dates in September 2025 and we expect to have the date finalized in the next several weeks.

Falkbuilt also filed a lawsuit against the Company on November 5, 2019, in the Court of King's Bench of Alberta, alleging that DIRTT has misappropriated and misused their alleged proprietary information in furtherance of DIRTT's product development. Falkbuilt seeks monetary relief and an interim, interlocutory and permanent injunction of DIRTT's alleged use of the alleged proprietary information. The Company believes that the suit is without merit and filed an application for summary judgment to dismiss Falkbuilt's claim.

No amounts are accrued for the above legal proceedings.

22. RELATED PARTY TRANSACTIONS

On November 30, 2022, the Company closed a private placement of 8,667,449 common shares for aggregate gross consideration of \$2.8 million (the "Private Placement") with its two largest shareholders, 22 NW Fund, LP ("22NW") and 726 BC LLC and 726 BF LLC (together "726") and all the directors and officers, including 638,996 common shares issued at the deemed per share price equal to the Subscription Price, as reimbursement for the costs incurred by 726 in connection with the Company's contested director elections in 2022.

On March 15, 2023, the Company entered into a Debt Settlement Agreement (the "Debt Settlement Agreement") with 22NW and Aron English, 22NW's principal and a director of DIRTT, (together, the "22NW Group") who, collectively, beneficially owned approximately 19.5% of the Company's issued and outstanding common shares at such time.

Pursuant to the Debt Settlement Agreement, the Company agreed to reimburse the 22NW Group for the costs incurred by the 22NW Group in connection with the contested director election at the annual and special meeting of shareholders of the Company held on April 26, 2022, being approximately \$1.6 million (the "Debt"). Pursuant to the Debt Settlement Agreement, the Company agreed to repay the Debt by either, or a combination of (i) a payment in cash by the Company to the 22NW Group, and/or (ii) the issuance of equity securities of the Company to the 22NW Group. In connection with the Debt Settlement Agreement, on March 15, 2023, the Company entered into a share issuance agreement with the 22NW Group, pursuant to which the Company agreed to repay the Debt with the issuance to the 22NW Group of 3,899,745 common shares at a deemed price of \$0.40 per common share, subject to approval by the Company's shareholders. At the annual general and special meeting of shareholders held on May 30, 2023, shareholders voted to approve the issuance of common shares to 22NW Group, and on June 2, 2023, the Company issued 3,899,745 common shares to 22NW Group as repayment for the Debt. Upon settlement, the debt was revalued at the higher of the deemed price of \$0.40 per common share and the May 30, 2023, market price of \$0.38 per common share resulting in a recovery from the balance recorded at March 31, 2023, which had been valued at a price of \$0.53 per common share.

As at December 31, 2023, C\$18.9 million and C\$13.6 million of the January Debentures and December Debentures, respectively, are held by 22NW Group. Interest accrued on the debentures owned by 22NW Group for the year ended December 31, 2023, is C\$0.4 million and interest expense paid was C\$0.5 million (2022 - \$nil and \$nil respectively). Interest is earned on terms applicable to all Debenture holders.

Other related party transactions for the year ended December 31, 2023, relate to the sale of DIRTT products and services to the 22NW Group for \$0.3 million (2022 - \$nil). The sale to 22NW Group was based on price lists in force and terms that are available to all employees. 2023 reorganization costs include \$nil paid to related parties (2022 - \$0.2 million).

23. SUBSEQUENT EVENTS

On November 21, 2023, the Company announced that the Board of Directors had approved a Rights Offering to its common shareholders for aggregate gross proceeds of C\$30.0 million.

In connection with the Rights Offering, the Company entered into a standby purchase agreement with 22NW Fund, LP (“22NW”) and 726 dated November 20, 2023 (the “Standby Purchase Agreement”), pursuant to which each of 22NW and 726, or their permitted assigns (collectively and including WWT Opportunity #1 LLC, to which 726 transferred their entire holdings on December 1, 2023, the “Standby Purchasers”). Subject to the terms and conditions of the Standby Agreement, each Standby Purchaser agreed to exercise its Basic Subscription Privilege in full and to collectively purchase from the Company, at the Subscription Price, all common shares not subscribed for by holders of Rights under the Basic Subscription Privilege or Additional Subscription Privilege, up to a maximum of C\$15.0 million each, so that the maximum number of common shares that may be issued in connection with the Rights Offering will be issued and the Company will receive aggregate gross proceeds of C\$30.0 million. No standby fee will be paid to the Standby Purchasers in connection with the Rights Offering; however, DIRTT will reimburse the Standby Purchasers for their reasonable expenses in connection with the Standby Agreement up to a maximum of C\$30,000.

On January 9, 2024, the Company announced the completion of the Rights Offering to its common shareholders and the issuance of 85,714,285 common shares at a price of C\$0.35 (\$0.26) per whole Common Share for aggregate gross proceeds of C\$30.0 million (\$22.4 million). Each right distributed under the Rights Offering (each, a “Right”) entitled eligible holders to subscribe for 0.81790023 common shares, exercisable for whole common shares only, meaning 1.22264301 Rights were required to purchase one Common Share (the “Basic Subscription Privilege”). In accordance with applicable law, the Rights Offering included an additional subscription privilege (the “Additional Subscription Privilege”) under which eligible holders of Rights who fully exercised the Rights issued to them under their Basic Subscription Privilege, were entitled to subscribe for additional common shares, on a pro rata basis, that were not otherwise subscribed for under the Basic Subscription Privilege.

DIRTT issued an aggregate of 67,379,471 common shares pursuant to the Basic Subscription Privilege and 18,334,814 common shares pursuant to the Additional Subscription Privilege. As a result of the common shares issued under the Basic Subscription Privilege and Additional Subscription Privilege, no common shares were available for issuance pursuant to the Standby Agreement.

On February 4, 2024, the Company entered into a Litigation Funding Agreement with a third party for the funding of up to \$4.0 million of litigation costs in respect of specific claims against Falkbuilt, Inc., Falkbuilt Ltd. and Henderson. In return, the Company has agreed to pay from any proceeds received from the settlement of such claims, a reimbursement of funded amounts plus diligence and underwriting costs, plus a multiple of such funded amount based on certain milestones.

On February 15, 2024, the Company announced a substantial issuer bid and tender offer (the “Issuer Bid”), under which the Company will offer to repurchase for cancellation: (i) up to C\$6,000,000 principal amount of its issued and outstanding January Debentures (or such larger principal amount as the Company, in its sole discretion, may determine it is willing to take-up and pay for, subject to applicable law) at a purchase price of C\$720 per C\$1,000 principal amount of January Debentures; and (ii) up to C\$9,000,000 principal amount of its issued and outstanding December Debentures (or such larger principal amount as the Company, in its sole discretion, may determine it is willing to take-up and pay for, subject to applicable law) at a purchase price of C\$600 per C\$1,000 principal amount of December Debentures. Holders of Debentures who validly tender and do not withdraw their Debentures will receive the applicable purchase price, plus a cash payment for all accrued and unpaid interest up to, but excluding, the date on which such Debentures are taken up by the Company. The applicable purchase price will be denominated in Canadian dollars and payments of amounts owed to holders of deposited Debentures, including for interest, will be made in Canadian dollars. The Issuer Bid will remain open for acceptance until 5:00 p.m. (Eastern Standard Time) on March 22, 2024, unless withdrawn or extended by the Company. If the aggregate principal amount of the Debentures properly tendered and not withdrawn under the Issuer Bid exceeds C\$6,000,000 for the January Debentures or C\$9,000,000 for the December Debentures, the Company will purchase a pro-rated portion of the January Debentures or the December Debentures so tendered, as applicable (with adjustments to maintain C\$1,000 minimum denominations of Debentures). DIRTT will return all Debentures not purchased under the Issuer Bid, including Debentures not purchased because of pro-ration. Debentures taken up and paid for by the Company will be immediately cancelled.

The Company intends to fund the Issuer Bid with a portion of the proceeds from the Company’s previously completed Rights Offering to its common shareholders, which closed in January 2024 for aggregate gross proceeds of C\$30.0 million.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

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

As required by Rule 13a-15 under the Exchange Act, our principal executive officer and principal financial officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2023. Based upon their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act, as amended. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO framework) to evaluate the effectiveness of internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of our internal control over financial reporting, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of our internal control over financial reporting are not omitted and is relevant to an evaluation of internal control over financial reporting.

Based on its evaluation under the framework in Internal Control—Integrated Framework, our management concluded that the Company maintained effective internal control over financial reporting at a reasonable assurance level as of December 31, 2023, based on those criteria.

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) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to the information that will be contained in our information circular and proxy statement (“proxy statement”) related to the 2024 Annual Meeting of Shareholders, which we intend to file with the SEC within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2024 Annual Meeting of Shareholders, which we intend to file with the SEC within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2024 Annual Meeting of Shareholders, which we intend to file with the SEC within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2024 Annual Meeting of Shareholders, which we intend to file with the SEC within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2024 Annual Meeting of Shareholders, which we intend to file with the SEC within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of the report:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets, as at December 31, 2023 and 2022

Consolidated Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2023, 2022 and 2021

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2023, 2022 and 2021

Consolidated Statements of Cash Flows for the Years Ended December 31, 2023, 2022 and 2021

Notes to the Consolidated Financial Statements

(2) Financial Statement Schedules

All schedules have been omitted as they are either not required or not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

(3) See Item 15(b)

(b) Exhibits:

Exhibit No.	Exhibit or Financial Statement Schedule
3.1	<u>Restated Articles of Amalgamation of DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
3.2	<u>Amended and Restated Bylaw No.1 of DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on May 22, 2020).</u>
4.1	<u>Description of Registrant's Securities (incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K, File No. 001-39061, filed on February 26, 2020).</u>
4.2	<u>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).</u>
4.3	<u>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).</u>
4.4	<u>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).</u>
10.1+#	<u>Loan Agreement, dated February 12, 2021, by and among the Royal Bank of Canada, DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc., as borrowers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on February 19, 2021).</u>
10.2+#	<u>First Amendment and Consent to Loan Agreement, dated November 15, 2021, by and among the Royal Bank of Canada, as lender, and DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc., as borrowers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on November 23, 2021).</u>
10.3+	<u>Amended and Restated Incentive Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>

Exhibit No.	Exhibit or Financial Statement Schedule
10.4+	<u>DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on May 22, 2020).</u>
10.5+	<u>Form of Option Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
10.6+	<u>Form of Time-Based Restricted Share Unit Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
10.7+	<u>DIRTT Environmental Solutions Ltd. 2022 Employee Share Purchase Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q File No. 001-39061, filed on May 4, 2022).</u>
10.8+	<u>Form of Performance-Based Restricted Share Unit Award Agreement Under the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-8, File No. 333-238689, filed on May 26, 2020).</u>
10.9+	<u>Deferred Share Unit Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.10+	<u>DIRTT Environmental Solutions Ltd. Amended and Restated Employee Share Purchase Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, File No. 333-234143, filed on October 9, 2019).</u>
10.11+	<u>Executive Employment Agreement, dated June 22, 2022 by and between DIRTT Environmental Solutions Ltd. and Benjamin Urban (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q, File No. 001-39061, filed on July 27, 2022).</u>
10.12+	<u>Executive Employment Agreement, dated August 12, 2022, by and between DIRTT Environmental Solutions Inc. and Richard Hunter (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q, File No. 001-39061, filed on November 14, 2022).</u>
10.13+	<u>Executive Employment Agreement, dated August 2, 2023, by and between DIRTT Environmental Solutions Inc. and Fareeha Khan (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q, File No. 001-39061, filed on November 9, 2023).</u>
10.14+	<u>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 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q File No. 001-39061, filed on May 4, 2022).</u>
10.15+	<u>Indemnity Agreement, dated June 22, 2022, between DIRTT Environmental Solutions Ltd and Benjamin Urban, together with a schedule identifying other substantially identical agreements between the Company and each of the other persons identified on the schedule (incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-Q, File No. 001-39061, filed on July 27, 2022).</u>
10.16+	<u>Indemnity Agreement, dated August 11, 2022, between DIRTT Environmental Solutions Ltd and Richard Hunter, together with a schedule identifying other substantially identical agreements between the Company and each of the other persons identified on the schedule (incorporated by reference to Exhibit 10.6 to the Registrant's Form 10-Q, File No. 001-39061, filed on November 14, 2022).</u>
10.17+	<u>Indemnity Agreement, dated August 2, 2023, between DIRTT Environmental Solutions Ltd and Fareeha Khan (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q, File No. 001-39061, filed on November 9, 2023).</u>

Exhibit No.	Exhibit or Financial Statement Schedule
10.18#	<u>Industrial Lease, dated September 15, 2012, by and between Piret (7303-30th Street SE) Holdings Inc. and DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.19#	<u>Agreement of Lease, dated November 5, 2013, by and between Dundee Industrial Twofer (GP) Inc. and DIRTT Environmental Solutions Ltd., as amended by the Lease Amending Agreement, dated October 21, 2016, by and between Dream Industrial Twofer (GP) Inc. (formerly known as Dundee Industrial Twofer (GP) Inc.) and DIRTT Environmental Solutions Ltd. (incorporated by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.20#	<u>Lease of Industrial Space, dated February 12, 2015, by and between Hoopp Realty Inc./Les Immeubles Hoopp Inc., by its duly authorized agent, Triovest Realty Advisors Inc., and DIRTT Environmental Solutions Ltd., as amended by the Amendment of Lease, dated April 16, 2015, the Lease Modification Agreement, dated October 27, 2015, the Third Amendment of Lease, dated November 12, 2015, and the Fourth Amendment of Lease, dated January 8, 2016, the Fifth Amendment of Lease, dated August 9, 2019, the Sixth Amendment of Lease, dated February 6, 2023 (incorporated by reference to Exhibit 10.25 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.21#	<u>Lease Agreement, dated March 29, 2011, by and between EastGroup Properties, L.P. and DIRTT Environmental Solutions, Inc. (incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.22#	<u>Lease, dated July 1, 2015, by and between Majik Ventures, L.L.C. and DIRTT Environmental Solutions, Inc., as amended by the First Amendment to Lease, dated May 11, 2017, by and between CAM Investment 352 LLC and DIRTT Environmental Solutions, Inc. (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.23#	<u>Industrial Lease Agreement, dated October 2, 2008, by and between 141 Knowlton Way, LLC and DIRTT Environmental Solutions, Inc., as amended by the First Amendment to Industrial Lease Agreement, dated March 11, 2009, and the Second Amendment to Industrial Lease Agreement, dated August 23, 2018, by and between SH7-Savannah, LLC and DIRTT Environmental Solutions, Inc. (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form 10, File No. 001-39061, filed on September 20, 2019).</u>
10.24#	<u>Lease Agreement, dated October 7, 2019, by and between DIRTT Environmental Solutions, Inc. and SP Rock Hill Legacy East #1, LLC (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q, File No. 001-39061, filed on November 7, 2019).</u>
10.25#	<u>Second Amendment to Lease made as of the 6th day of July, 2020, by and between SP ROCK HILL LEGACY EAST #1, LLC, an Indiana limited liability company, and DIRTT ENVIRONMENTAL SOLUTIONS, INC., a Colorado corporation (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q, File No. 001-39061, filed on July 29, 2020).</u>
10.26#	<u>Lease Agreement between Tennyson Campus Owner, LP and DIRTT Environmental Solutions, Inc. dated March 4, 2020 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q, File No. 001-39061, filed on May 6, 2020).</u>
10.27#	<u>Lease Amending Agreement, dated April 6, 2022, by and between Piret (7303 - 30th Street SE) Holdings Inc. and DIRTT Environmental Solutions Ltd (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q, File No. 001-39061, filed on July 27, 2022).</u>
10.28	<u>Letter Agreement, dated January 7, 2021, by and among DIRTT Environmental Solutions Ltd., DIRTT Environmental Solutions, Inc. and Royal Bank of Canada (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on January 13, 2021).</u>

Exhibit No.	Exhibit or Financial Statement Schedule
10.29+	<u>Indemnification Agreement, by and between DIRTT Environmental Solutions Ltd. and James A. Lynch, dated March 22, 2021 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on March 23, 2021).</u>
10.30+	<u>Subscription Agreement, dated November 14, 2022, by and between DIRTT Environmental Solutions Ltd. and 22NW Fund, LP, together with a schedule identifying substantially identical agreements between DIRTT Environmental Solutions Ltd. and each shareholder and U.S. director and executive officer listed on the schedule and identifying the material differences between each of those agreements and the filed Subscription Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, File No. 001-39061, filed on November 18, 2022).</u>
10.31+	<u>Subscription Agreement, dated November 14, 2022, by and between DIRTT Environmental Solutions Ltd. and Mark Greffen, together with a together with a schedule identifying substantially identical agreements between DIRTT Environmental Solutions Ltd. and each shareholder and Canadian executive officer listed on the schedule and identifying the material differences between each of those agreements and the filed Subscription Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K, File No. 001-39061, filed on November 18, 2022).</u>
10.32	<u>Release, dated November 30, 2022, by and among DIRTT Environmental Solutions Ltd., 726 BC LLC and 726 BF LLC ((incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, File No. 001-39061, filed on November 30, 2022).</u>
10.33#†	<u>Second Amendment to Loan Agreement, dated February 9, 2023, by and among DIRTT Environmental Solutions Ltd., DIRTT Environmental Solutions, Inc. and Royal Bank of Canada (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K,File No. 001-39061, filed on February 22, 2023).</u>
10.34+#†	<u>Co-ownership Agreement by and between DIRTT Environmental Solutions Ltd. and Armstrong World Industries, Inc., effective May 9, 2023 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q,File No. 001-39061, filed on August 2, 2023).</u>
10.35+#	<u>DIRTT Environmental Solutions Ltd. Amended and Restated Long Term Incentive Program effective May 30, 2023 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q,File No. 001-39061, filed on August 2, 2023).</u>
10.36	<u>DIRTT Environmental Solutions Ltd. 2022 Employee Share Purchase Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q File No. 001-39061, filed on May 4, 2022)</u>
10.37	<u>Debt Settlement Agreement, dated March 15, 2023, by and between DIRTT Environmental Solutions Ltd., 22NW Fund, LP and Aron English (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on March 21, 2023).</u>
10.38	<u>Share Issuance Agreement, dated March 15, 2023, by and between DIRTT Environmental Solutions Ltd., 22NW Fund, LP and Aron English (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, File No. 001-39061, filed on March 21, 2023).</u>
10.39*#†	<u>Third Amendment to Loan Agreement, dated February 9, 2024, by and among DIRTT Environmental Solutions Ltd., DIRTT Environmental Solutions, Inc. and Royal Bank of Canada</u>
10.40*	<u>Lease Amending Agreement, dated February 6, 2023, by and between HOOPP Realty Inc./Les Immeubles HOOPP Inc., (6335 - 57th Street SE) and DIRTT Environmental Solutions Ltd.</u>
21.1*	<u>Subsidiaries of DIRTT Environmental Solutions Ltd.</u>
23.1*	<u>Consent of PricewaterhouseCoopers, L.L.P., independent registered public accounting firm.</u>
31.1*	<u>Certification of the Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>

Exhibit No.	Exhibit or Financial Statement Schedule
31.2*	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.
32.1**	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.
32.2**	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.
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
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** Furnished herewith.

+ Compensatory plan or agreement.

Information in this exhibit identified by brackets is confidential and has been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K because it is not material and is the type of information that the Company customarily treats as private or confidential. An unredacted copy of this exhibit will be furnished to the Securities and Exchange Commission on a supplemental basis upon request.

† Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the Securities and Exchange Commission upon request.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIRTT ENVIRONMENTAL SOLUTIONS LTD.

Date: February 21, 2024

By: /s/ Benjamin Urban

Name: Benjamin Urban

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Benjamin Urban</u> Benjamin Urban	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	February 21, 2024
<u>/s/ Fareeha Khan</u> Fareeha Khan	Chief Financial Officer <i>(Principal Financial Officer and Principal Accounting Officer)</i>	February 21, 2024
<u>/s/ Ken Sanders</u> Ken Sanders	Director	February 21, 2024
<u>/s/ Douglas Edwards</u> Douglas Edwards	Director	February 21, 2024
<u>/s/ Aron English</u> Aron English	Director	February 21, 2024
<u>/s/ Scott Robinson</u> Scott Robinson	Director	February 21, 2024
<u>/s/ Shaun Noll</u> Shaun Noll	Director	February 21, 2024
<u>/s/ Scott Ryan</u> Scott Ryan	Director	February 21, 2024

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE SUCH TERMS ARE BOTH NOT MATERIAL AND ARE THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL. THESE REDACTED TERMS HAVE BEEN MARKED IN THIS EXHIBIT WITH THREE ASTERISKS [***].

THIRD AMENDMENT AND CONSENT TO LOAN AGREEMENT

DATED as of February 9, 2024

AMONG: **DIRTT ENVIRONMENTAL SOLUTIONS LTD.**, and **DIRTT ENVIRONMENTAL SOLUTIONS, INC.**, as Borrowers

AND: **ROYAL BANK OF CANADA**, as Lender

PREAMBLE

WHEREAS the Borrowers and the Lender entered into that certain Loan Agreement dated as of February 12, 2021 (as amended pursuant to a First Amendment and Consent dated November 15, 2021, the Second Amendment to Loan Agreement dated February 9, 2023 (the “**Second Amendment**”), and as may be further amended, restated, supplemented, revised, replaced or otherwise modified from time to time, the “**Existing Loan Agreement**”);

AND WHEREAS the Borrowers have requested that the Lender consents to a one time repayment of the Convertible Debentures, not to exceed CAD\$15,000,000 in the aggregate (the “**Debenture Repayment**”);

AND WHEREAS the Borrowers and the Lender have agreed to extend the Stated Expiry Date of the Loan Agreement by one year to February 12, 2025 and to amend certain other provisions of the Loan Agreement, but, in each case, only to the extent and subject to the limitations set forth in this Amendment (this “**Amendment**” and, together with the Existing Loan Agreement, the “**Loan Agreement**”) and without prejudice to the Lender’s other rights;

NOW THEREFORE for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereby agree as follows:

ARTICLE I – INTERPRETATION

1.1 All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

ARTICLE II – CONSENT

2.1 In reliance upon the representations and warranties of each Borrower set forth in Article V below and subject to the satisfaction of the conditions precedent set forth in Article VI below the Lender hereby consents to the Debenture Repayment.

ARTICLE III – AMENDMENTS TO THE LOAN AGREEMENT

3.1 With effect on the Effective Date (hereinafter defined), the Loan Agreement is amended to delete the stricken text (indicated textually in the same manner as the following example: ~~stricken text~~) and to add the double-underlined text (indicated textually in the same manner as the following example: double-underlined text) as set forth in the pages of the Loan Agreement attached hereto as Exhibit A. For the avoidance of doubt, Exhibit A incorporates changes made pursuant to the Second

Amendment, which changes are not indicated as stricken or added pursuant to this Amendment Agreement.

- 3.2 Notwithstanding anything to the contrary herein, any Revolving Credit Advances based upon the CDOR Rate (as defined in the Existing Loan Agreement) existing as of the Effective Date shall continue to the end of the applicable Interest Period for such Revolving Credit Advance and the provisions of the Existing Loan Agreement applicable solely with respect to any existing Revolving Credit Advances based upon the CDOR Rate that continue past the Effective Date shall continue to apply as such, *mutatis mutandis*, until the end of the applicable Interest Period for such Revolving Credit Advances, after which such provisions shall have no further force or effect.
- 3.3 As of the Effective Date, Schedules D, G, I, 3.2, 3.6, 3.7, 3.12, 3.13, 3.16, 3.17, and 6.1 are hereby amended and restated in their entirety in the form attached hereto.

ARTICLE IV – CONDITIONS TO EFFECTIVENESS

- 4.1 This Amendment shall become effective upon the Borrowers delivering to the Lender each of the following (such date being referred to herein as the “**Effective Date**”):
- (a) an executed copy of this Amendment by PDF copy transmitted via e-mail or telecopier;
 - (b) copies of PPSA, UCC, and as applicable, Register of Personal and Movable Real Rights of Quebec, Bank Act, insolvency, executions, litigation, or other jurisdictional searches, as applicable, or other evidence satisfactory to Lender, listing all effective, registrations, financing statements and recordations which name the Credit Parties (under present name, any previous name or any trade or doing business name) as debtor and together with copies of such other recordings, registrations and financing statements;
 - (c) certified copies of all the constating documents, by-laws and resolutions of the directors (or partners, members or shareholders as required by Lender) authorizing the Loan Documents, and certificates of incumbency, for Borrowers and each other Credit Party;
 - (d) certificate of good standing (or other similar instruments) in respect of each of the Credit Parties;
 - (e) opinions of counsel to each of the Credit Parties (including opinions relating to enforceability, the Lender’s security in each relevant jurisdiction and such other matters as the Lender reasonably considers necessary in its discretion) with respect to this Amendment and each Loan Document in form and substance satisfactory to Lender;
 - (f) the Borrowers paying to the Lender an amendment fee equal to \$30,000; which fee shall be non-refundable and fully earned and paid upon the execution of this Agreement and which fee may be charged as a Revolving Credit Advance and be added to and form part of a Loan.

ARTICLE V – REPRESENTATIONS AND WARRANTIES

- 5.1 Each Borrower represents and warrants to the Lender that the following statements are true, correct and complete:
- (a) Authorization, Validity, and Enforceability of this Amendment. Each Borrower has the corporate power and authority to execute and deliver this Amendment. Each Borrower has taken all necessary corporate action (including, without limitation, obtaining approval of its shareholders if necessary) to authorize the execution and delivery of this Amendment. This Amendment has been duly executed and delivered by the Borrowers and this Amendment

constitutes the legal, valid and binding obligations of the Borrowers, enforceable against them in accordance with their respective terms without defence, compensation, setoff or counterclaim. Each Credit Party's execution and delivery of this Amendment does not and will not conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any lien upon the property of the Borrowers by reason of the terms of (a) any contract, mortgage, hypothec, lien, lease, agreement, indenture, or instrument to which any of the Borrowers is a party or which is binding on any of them, (b) any requirement of law applicable to the Borrowers, or (c) the certificate or articles of incorporation or amalgamation or bylaws of the Borrowers.

- (b) Governmental Authorization. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any governmental authority or other person is necessary or required in connection with the execution, delivery or performance by, or enforcement against the Borrowers or any Subsidiaries of this Amendment except for such as have been obtained or made and filings required in order to perfect and render enforceable the Lender's security interests.
- (c) Incorporation of Representations and Warranties From Loan Agreement. The representations and warranties contained in the Loan Agreement are and will be true, correct and complete in all material respects on and as of the Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.
- (d) Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default.
- (e) Security. All security delivered to or for the benefit of the Lender pursuant to the Loan Agreement and the other Loan Documents remains in full force and effect and secures all Obligations of the Borrowers under the Loan Agreement and the other Loan Documents to which they are a party.

ARTICLE VI – MISCELLANEOUS

- 6.1 Each Borrower (i) reaffirms its Obligations under the Loan Agreement and the other Loan Documents to which it is a party, and (ii) agrees that the Loan Agreement and the other Loan Documents to which it is a party remain in full force and effect, except as amended hereby, and are hereby ratified and confirmed.
- 6.2 The execution, delivery and performance of this Amendment shall not, except as expressly provided for herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Lender under the Loan Agreement or any other document.
- 6.3 Each Borrower acknowledges and agrees that it has read and is fully informed and satisfied with all the terms and conditions of this Amendment and has had the opportunity to obtain independent legal advice in connection therewith.
- 6.4 This Amendment shall be governed by, and construed in accordance with, the internal laws of the Province of Alberta and the federal laws of Canada applicable therein without regard to the principles of conflict of laws.

6.5 This Amendment and each other Loan Document may be executed in one or more counterparts (and by different parties hereto in different counterparts), each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery by fax or other electronic transmission of an executed counterpart of a signature page to this Amendment and each other Loan Document shall be effective as delivery of an original executed counterpart of this Amendment and such other Loan Document. The words "execution," "execute", "signed," "signature," and words of like import in or related to any document to be signed in connection with this Amendment or any other Loan Document shall be deemed to include electronic signatures, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, as in provided Parts 2 and 3 of the *Personal Information Protection and Electronic Documents Act* (Canada), the *Electronic Commerce Act, 2000* (Ontario), the *Electronic Transaction Acts* (British Columbia), the *Electronic Transactions Act* (Alberta), or any other similar laws based on the Uniform Electronic Commerce Act of the Uniform Law Conference of Canada. The Lender may, in its discretion, require that any such documents and signatures executed electronically or delivered by fax or other electronic transmission be confirmed by a manually-signed original thereof; provided that the failure to request or deliver the same shall not limit the effectiveness of any document or signature executed electronically or delivered by fax or other electronic transmission.

[The next pages are the signature pages]

DATED as of the date first stated above.

Lender:

ROYAL BANK OF CANADA,
by its attorneys,

Per: /s/ Jordan Falkenberg

Name: Jordan Falkenberg

Title: Vice-President, Corporate Client
Group - Finance

Borrower:

**DIRTT ENVIRONMENTAL SOLUTIONS
LTD.**

Per: /s/ Fareeha Khan

Name: Fareeha Khan

Title: Chief Financial Officer

Borrower:

**DIRTT ENVIRONMENTAL SOLUTIONS,
INC.**

Per: /s/ Fareeha Khan

Name: Fareeha Khan

Title: Chief Financial Officer

EXHIBIT A to THIRD AMENDMENT AND CONSENT

LOAN AGREEMENT

Dated as of February 12, 2021

between

ROYAL BANK OF CANADA

as Lender

and

DIRTT ENVIRONMENTAL SOLUTIONS LTD.

and

DIRTT ENVIRONMENTAL SOLUTIONS, INC.

as Borrowers

and

THE GUARANTORS PARTY HERETO

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Exhibit A:	Form of Notice of Borrowing or Continuation/Conversion
Exhibit B:	Form of Borrowing Base Certificate
Exhibit C:	Form of Compliance Certificate
Exhibit D:	Form of Notice of Repayment

TRANSACTION SUMMARY AS OF THE DATE OF THIS AGREEMENT

REVOLVING CREDIT LOAN

Letter of Credit Sublimit: Maximum Amount: \$15,000,000 or the Equivalent Amount in U.S.\$ if available
\$5,000,000
Term: One (1) year
Interest Rate: RBP plus 0.75% per annum
RBUSBR plus 0.75% per annum
Adjusted Term CORRA plus 2.00% per annum
Term SOFR Rate plus 2.00% per annum plus the Term SOFR Adjustment
Unused Line Fee: 0.40% per annum
Letter of Credit Fee: to be determined at time of issue
Borrowing Base: (i) 85% of the value (as determined by Lender) of Eligible Accounts (other than Investment Grade or Insured Accounts), 90% of the value (as determined by Lender) of Eligible Investment Grade or Insured Accounts; plus
(ii) the lesser of (I) 85% of the net orderly liquidation value of Eligible Inventory, and (II) 75% of the book value of Eligible Inventory; less
(iii) reserves.

OTHER FEES

Closing Fee: \$75,000
Collateral Monitoring Fee: \$1,000 per month in advance

STATED EXPIRY DATE

February 12, 2025

The loans described generally here are established and governed by the terms and conditions set forth below in this Agreement and the other Loan Documents, and if there is any conflict between this general description and the express terms and conditions below or elsewhere in the Loan Documents, such other express terms and conditions shall control.

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This **LOAN AGREEMENT** is dated as of February 12, 2021 and agreed to by and between DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc. (each a “**Borrower**”, and collectively the “**Borrowers**”), each other Credit Party executing this Agreement, and Royal Bank of Canada (“**Lender**”).

RECITALS:

A. Borrowers desire to obtain the Loans and other financial accommodations from Lender and Lender is willing to provide the Loans and accommodations all in accordance with the terms of this Agreement.

B. Capitalized terms used herein shall have the meanings assigned to them in Schedule A and, for purposes of this Agreement and the other Loan Documents, the rules of construction set forth in Schedule A shall govern. All schedules, attachments, addenda and exhibits hereto, or expressly identified to this Agreement, are incorporated herein by reference, and taken together with this Agreement, constitute but a single agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

SECTION 1 – AMOUNT AND TERMS OF CREDIT

1.1 Loans

- (a) Advances. Subject to the terms and conditions of this Agreement, from the Closing Date and until the Commitment Termination Date: (i) Lender agrees to make available to the Borrowers advances (each, a “**Revolving Credit Advance**”) in \$ based upon RBP or Term CORRA (subject to a minimum of \$500,000 in the case of Revolving Credit Advances made based upon RBP, \$1,000,000 in the case of Revolving Credit Advances made based upon Term CORRA and in both cases in integral multiples of \$100,000 in excess thereof) and subject to such limits as Lender may specify in U.S.\$ based upon RBUSBR or the Term SOFR Rate (subject to a minimum of U.S.\$500,000 in the case of Revolving Credit Advances made based upon RBUSBR, U.S.\$1,000,000 in the case of Revolving Credit Advances made based upon the Term SOFR Rate and in both cases in integral multiples of U.S.\$100,000 in excess thereof) and to incur Letter of Credit Obligations, subject to the Letter of Credit Sublimit, in an aggregate outstanding amount not to exceed the Borrowing Availability; and (ii) a Borrower may at its request from time to time borrow, repay and reborrow, and may cause Lender to incur Letter of Credit Obligations, under this Section 1.1.
- (b) Borrowing. A Borrower shall request each Revolving Credit Advance by written notice to Lender substantially in the form of Exhibit A (each a “**Notice of Borrowing**”) given no later than: (i) 3:00 p.m. (Toronto time) one (1) Business Day prior to the Business Day of the proposed advance, in the case of Revolving Credit Advances to be made in \$ based upon RBP and in U.S.\$ based upon RBUSBR; and (ii) 12:00 p.m. (Toronto time) one (1) Business Day prior to the Business Day of the proposed advance, in the case of Revolving Credit Advances to be made in \$ based upon Term CORRA; and (iii) 12:00 p.m. (Toronto time) two (2) Business Days prior to the Business Day of the proposed advance and within two (2) Business Days of the delivery of the documents and information provided for in Section 4.1(a), in the case of Revolving Credit Advances to be made in U.S.\$ based upon the Term SOFR Rate. Lender shall be fully protected under this Agreement in relying upon, and shall be entitled to rely upon: (i) any Notice of Borrowing believed by Lender to be genuine; and (ii) the assumption that the Persons making electronic requests or executing and delivering a Notice of Borrowing were duly authorized, unless the responsible individual acting thereon for Lender shall have actual knowledge to the contrary. As an accommodation to Borrowers, Lender may permit telephonic (which shall, promptly upon request be confirmed in writing by a Borrower), electronic, or facsimile requests for a Revolving Credit Advance and electronic or facsimile transmittal of instructions,

authorizations, agreements or reports to Lender by Borrowers. Unless Borrowers specifically direct Lender in writing not to accept or act upon telephonic, facsimile or electronic communications from a Borrower, Lender shall have no liability to Borrowers for any loss or damage suffered by Borrowers as a result of Lender's honouring of any requests, execution of any instructions, authorizations or agreements or reliance on any reports communicated to it telephonically, by facsimile or electronically and purporting to have been sent to Lender by Borrowers, and Lender shall have no duty to verify the origin of any such communication or the identity or authority of the Person sending it.

- (c) Borrowing Base Certificate. In making any Loan hereunder Lender shall be entitled to rely upon the most recent Borrowing Base Certificate delivered to Lender by Borrowers and other information available to Lender. Lender shall be under no obligation to make any further Revolving Credit Advance or incur any other Obligation if Borrowers shall have failed to deliver a Borrowing Base Certificate to Lender by the time specified in Section 4.1(a) or if an Event of Default shall be continuing.
- (d) Letters of Credit. Subject to the terms and conditions of this Agreement, Borrowers shall have the right to request, and Lender agrees to incur, the Letter of Credit Obligations for the account of Borrowers in accordance with Schedule C and for greater certainty, any amount advanced by Lender on account of the Letter of Credit Obligations shall be deemed a Loan and Revolving Credit Advance.
- (e) Bank Products. Subject to the terms and conditions of this Agreement, Lender may provide Bank Products to Borrowers in accordance with Schedule H.
- (f) Overdrafts. The existence of any overdraft in any of the bank accounts maintained with Lender in consequence of Lender charging or debiting any amount as provided in Section 1.10 or any cheque or other item presented for payment in an amount greater than the available balance in such account, whether or not pursuant to any limit established by Lender in its sole, unfettered discretion (an "**Overdraft**") shall be deemed to be a request for an advance hereunder and shall constitute a Loan and Revolving Credit Advance (being either an RBP based loan or an RBUSBR based loan, as the case may be) in the amount of such Overdraft. In addition to all other terms and conditions set out in this Agreement, Lender shall not, however, have any obligation to honour any Overdraft if such proposed Overdraft together with all other Overdrafts then outstanding should, in the aggregate, exceed \$1,500,000, or the Equivalent Amount thereof in U.S.\$.

1.2 Term and Prepayment

- (a) Upon the Commitment Termination Date, the obligation of Lender to make Revolving Credit Advances and extend other credit hereunder shall immediately terminate and Borrowers shall pay to Lender in full, in cash: (i) all outstanding Revolving Credit Advances and all accrued but unpaid interest thereon; (ii) an amount sufficient to enable Lender to hold cash collateral as specified in Schedule C; and (iv) all other non-contingent Obligations due to Lender.
- (b) If the aggregate Revolving Credit Loans shall at any time exceed the Borrowing Availability, then Borrowers shall immediately repay the Revolving Credit Loan in the amount of such excess.
- (c) Borrowers shall have the right, at any time upon thirty (30) days prior written notice to Lender to: (i) terminate voluntarily Borrowers' right to receive or benefit from, and Lender's obligation to make Revolving Credit Advances and to incur Letter of Credit Obligations;

and (ii) prepay all of the Obligations; provided, however, that with respect to Revolving Credit Advances made based upon Term CORRA or the Term SOFR Rate prepaid by Borrowers prior to the expiration date of the Interest Period applicable thereto, Borrowers shall pay to Lender the amounts described in Section 1.14(c). Following receipt of such notice by Lender, the effective date of termination of the Revolving Credit Loan specified in such notice shall be deemed to be the Commitment Termination Date. If Borrowers exercise their right of termination and prepayment, or if Lender's obligation to make Loans is terminated for any reason prior to the Stated Expiry Date then in effect (including as a result of the occurrence of a Default), Borrowers shall pay to Lender the amounts (if any) described in Section 1.14(c).

1.3 Use of Proceeds

Borrowers shall use the proceeds of the Loans: (i) to refinance on the Closing Date certain outstanding Indebtedness, if any, as provided in Section 2.1(b); (ii) for working capital and (iii) for general corporate purposes. The Borrowers agree not to request Loans solely for the purpose of accumulating and/or maintaining cash or cash equivalents in depository or investment accounts outside of their ordinary course of business.

1.4 Joint and Several

Except as expressly provided otherwise herein, the term "Borrower" as used herein shall include DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc. and each of them or either of them, as the context may require. Each Borrower acknowledges that (i) it is a co-borrower hereunder and shall be jointly and severally, with the other Borrower, directly and primarily liable to the Lender for the Obligations regardless of which Borrower actually receives Loans or other extensions of credit hereunder or the amount of such Loans received or the manner in which the Lender accounts for such Loans or other extensions of credit on its books and records, (ii) each of the Obligations shall be secured by all of the Collateral, (iii) each Borrower shall have the obligations of co-maker and shall be primary obligors with respect to the Loans and the other Obligations, it being agreed that the Loans to each Borrower inure to the benefit of all Borrowers, and (iv) the Lender is relying on such joint and several liability of the Borrowers as co-makers in extending the Loans hereunder. Notwithstanding anything to the contrary contained in this Agreement, the Lender shall be entitled to rely upon any request, notice or other communication received by it from either Borrower on behalf of both Borrowers, and shall be entitled to treat its giving of any notice hereunder pursuant to Section 8.6 hereof as notice to each Borrower.

1.5 Interest

Borrowers shall pay interest to Lender on the aggregate outstanding Revolving Credit Advances as follows: (i) at a floating per annum rate equal to the RBP plus the Applicable Margin in the case of RBP based loans; (ii) at a floating per annum rate equal to the RBUSBR plus the Applicable Margin in the case of RBUSBR based loans; (iii) at a per annum rate equal to the Adjusted Term CORRA plus the Applicable Margin in the case of Term CORRA Loans; and (iv) at a per annum rate equal to the Term SOFR Rate plus the Applicable Margin in the case of Term SOFR Loans (in each case, the "**Advance Rate**"). All computations of interest in respect of Loans made in \$ based upon RBP or Adjusted Term CORRA or in U.S. \$ based upon RBUSBR or the Term SOFR Rate and all calculations of the Letter of Credit Fee, shall be made by Lender on the basis of a three hundred and sixty-five (365) or three hundred and sixty-six (366), as applicable, day year, in each case for the actual number of days occurring in the period for which such interest or fee is payable and shall be calculated daily and compounded (if unpaid) in arrears on the last day of each calendar month with respect to Loans made in \$ based upon RBP or in U.S. \$ based upon RBUSBR and on each Interest Payment Date with respect to Loans made in \$ based upon Adjusted Term CORRA.

In the case of Loans made in U.S.\$ based upon the Term SOFR Rate, interest on each advance will accrue daily on the basis of a year of 360 days, for the actual number of days occurring in the period for which such interest is payable and shall be calculated daily and compounded (if unpaid) in arrears on each Interest Payment Date. Any change in RBP or RBUSBR shall be effective as of the opening of business on the Business Day such change takes place.

- (a) Each determination by Lender of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error. If any provision of this Agreement would oblige the Borrowers to make any payment of interest or other amount payable to the Lender in an amount or calculated at a rate which would be prohibited by any applicable law or would result in a receipt by the Lender of "interest" at a "criminal rate" (as such terms are construed under the *Criminal Code* (Canada)), then, notwithstanding such provision, such amount or rate shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by applicable law or so result in a receipt by the Lender of "interest" at a "criminal rate", such adjustment to be effected, to the extent necessary (but only to the extent necessary), as follows: first, by reducing the amount or rate of interest required to be paid to the Lender under this section and thereafter, by reducing any fees, commissions, costs, expenses, premiums and other amounts required to be paid to the Lender which would constitute interest for purposes of section 347 of the *Criminal Code* (Canada).
- (b) Interest shall be payable on the outstanding Revolving Credit Advances: (i) in arrears for the preceding calendar month on the first Business Day of each calendar month; (ii) on the Interest Payment Date, in the case of Revolving Credit Advances based upon Adjusted Term CORRA or the Term SOFR Rate; (iii) on the Commitment Termination Date; and (iv) if any interest accrues or remains payable after the Commitment Termination Date, upon demand by Lender.
- (c) Effective upon the occurrence of any Event of Default and for so long as any Event of Default shall be continuing, the Advance Rate and the Letter of Credit Fee shall in the discretion of Lender be increased by three percentage points (3%) per annum (such increased rate, the "**Default Rate**"), and all outstanding Obligations, including unpaid interest and Letter of Credit Fees, shall continue to accrue interest from the date of such Event of Default at the Default Rate applicable to such Obligations.
- (d) If any interest or any other payment (including Unused Line Fees and Collateral Monitoring Fees) to Lender under this Agreement becomes due and payable on a day other than a Business Day, such payment date shall be extended to the next succeeding Business Day and interest thereon shall be payable at the then applicable rate during such extension.
- (e) Canadian Conforming Changes. In connection with the use or administration of CORRA or Term CORRA, the Lender will have the right to make Canadian Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Canadian Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Loan Document. The Lender will promptly notify the Borrowers of the effectiveness of any Canadian Conforming Changes in connection with the use or administration of CORRA or Term CORRA, as applicable.
- (f) Interest Rates. The Lender does not warrant or accept responsibility for, and shall not have any liability with respect to (a) the continuation of, administration of, submission of, calculation of or any other matter related to RBP, RBUSBR, Term CORRA, Adjusted Term CORRA, Term SOFR, Adjusted Term SOFR or any component definition thereof or rates

referred to in the definition thereof, or any alternative, successor or replacement rate thereto (including any Benchmark Replacement or Canadian Benchmark Replacement), including whether the composition or characteristics of any such alternative, successor or replacement rate (including any Canadian Benchmark Replacement) will be similar to, or produce the same value or economic equivalence of, or have the same volume or liquidity as, RBP, RBUSBR, Term CORRA, Adjusted Term CORRA, Term SOFR, Adjusted Term SOFR or any other Benchmark or Canadian Benchmark prior to its discontinuance or unavailability, or (b) the effect, implementation or composition of any Canadian Conforming Changes or Benchmark Replacement Conforming Changes. The Lender and its affiliates or other related entities may engage in transactions that affect the calculation of RBP, RBUSBR, Term CORRA, Adjusted Term CORRA, Term SOFR, Adjusted Term SOFR, any alternative, successor or replacement rate (including any Benchmark Replacement or Canadian Benchmark Replacement) or any relevant adjustments thereto, in each case, in a manner adverse to the Borrowers. The Lender may select information sources or services in its reasonable discretion to ascertain RBP, RBUSBR, Term CORRA, Adjusted Term CORRA, Term SOFR, Adjusted Term SOFR or any other Benchmark or Canadian Benchmark, in each case pursuant to the terms of this Agreement, and shall have no liability to the Borrowers or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

1.6 Continuation and Conversion Elections

- (a) Borrowers may, upon irrevocable written notice to Lender in accordance with Section 1.6(b):
 - (i) elect, as of any Business Day, in the case of Revolving Credit Advances based upon RBUSBR, to convert any such Revolving Credit Advance (or any part thereof in an amount not less than U.S.\$1,000,000 or that is in an integral multiple of U.S.\$100,000 in excess thereof) into a Revolving Credit Advance based upon the Term SOFR Rate or, as of any Business Day at the end of any Interest Period applicable thereto, in the case of Revolving Credit Advances based upon the Term SOFR Rate, to convert any such Revolving Credit Advance (or any part thereof) into a Revolving Credit Advance based upon RBUSBR;
 - (ii) elect, as of any Business Day, in the case of Revolving Credit Advances based upon RBP, to convert any such Revolving Credit Advance (any part thereof in any amount not less than \$1,000,000 or that is in an integral multiple of \$100,000 in excess thereof) into a Revolving Credit Advance based upon Adjusted Term CORRA or, as of any Business Day at the end of any Interest Period applicable thereto, in the case of Revolving Credit Advances based upon Adjusted Term CORRA, to convert any such Revolving Credit Advance (or any part thereof) into a Revolving Credit Advance based upon RBP;
 - (iii) elect, as of the last day of the applicable Interest Period, to continue any Revolving Credit Advances based upon the Term SOFR Rate having Interest Periods expiring on such day (or any part thereof in an amount not less than U.S.\$500,000 or that is in an integral multiple of U.S.\$100,000 in excess thereof); and
 - (iv) elect, as of the last day of the applicable Interest Period, to continue any Revolving Credit Advances based upon Adjusted Term CORRA having Interest Periods

expiring on such day (or any part thereof in an amount not less than \$500,000 or that is in an integral multiple of \$100,000 in excess thereof);

provided, that if at any time the aggregate amount of Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA, as applicable, is reduced, by payment, prepayment, or conversion of part thereof to be less than \$1,000,000 in the case of Revolving Credit Advances based upon Adjusted Term CORRA or U.S.\$1,000,000 in the case of Revolving Credit Advances based upon the Term SOFR Rate, such Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA, as applicable, shall automatically convert (i) in the case of Revolving Credit Advances based upon the Term SOFR Rate into Revolving Credit Advances based upon RBUSBR and (ii) in the case of Revolving Credit Advances based upon Adjusted Term CORRA, into Revolving Credit Advances based upon RBP.

- (b) Borrowers shall deliver a notice of continuation/conversion ("**Notice of Continuation/Conversion**") in the form of Exhibit A to be received by Lender not later than 12:00 p.m. (Toronto time) at least one (1) Business Day in advance of the Continuation/Conversion Date if the Revolving Credit Advances are to be converted into or continued as Revolving Credit Advances based upon Adjusted Term CORRA and at least two (2) Business Days in advance of the Continuation/Conversion Date if the Revolving Credit Advances are to be converted into or continued as Revolving Credit Advances based upon the Term SOFR Rate and otherwise by 12:00 p.m. on the Continuation/Conversion Date if the Revolving Credit Advances are to be converted into Revolving Credit Advances based upon RBP or RBUSBR.
- (c) If by no later than two (2) Business Days prior to the expiration of any Interest Period applicable to Revolving Credit Advances based upon the Term SOFR Rate or by not later than one (1) Business Day prior to the expiration of any Interest Period applicable to Revolving Credit Advances based upon Adjusted Term CORRA, Borrowers have failed to deliver a Notice of Continuation/Conversion to Lender in respect of such Interest Period to be applicable to Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA or if any Default or Event of Default then exists, and/or if such Notice of Continuation/Conversion would apply to a Term SOFR Rate Advance after the date that is one month prior to the Commitment Termination Date, Borrowers shall be deemed to have elected to convert such Revolving Credit Advances based upon the Term SOFR Rate into Revolving Credit Advances based upon RBUSBR or Revolving Credit Advances based upon Adjusted Term CORRA into Revolving Credit Advances based upon RBP, effective as of the expiration date of such Interest Period.
- (d) During the existence of a Default or Event of Default, Borrowers may not elect to have a Revolving Credit Advance converted or continued and Revolving Credit Advances during such period shall be based upon RBP or RBUSBR, as applicable.
- (e) After giving effect to any conversion or continuation of Revolving Credit Advances, there may not be more than five (5) different Interest Periods in effect hereunder unless consented to by Lender.

1.7 Cash Management System

On or prior to the Closing Date and until the Termination Date, Borrowers will establish and maintain the cash management system described in Schedule D. All payments in respect of the Collateral shall be made to or deposited in the Blocked Accounts described in Schedule D in accordance with the terms thereof.

1.8 Fees

Each Borrower agrees to pay to Lender the Fees set forth in Schedule E.

1.9 Receipt of Payments; Taxes

Each Borrower shall make each payment under this Agreement (not otherwise made pursuant to Section 1.10) without set-off, counterclaim or deduction and free and clear of all Taxes on the day when due in lawful money of Canada in immediately available funds to the Blocked Accounts, except as required by applicable law. If any Borrower shall be required by applicable law to deduct or withhold any Taxes from any payment to Lender under any Loan Document, then the amount payable to Lender shall be increased so that, after making all required deductions and withholdings, Lender receives an amount equal to that which it would have received had no such deductions and withholdings been made. In addition but without duplication, each Credit Party shall jointly and severally indemnify Lender, within 10 days after demand therefor, for any Taxes (including Taxes imposed or asserted on amounts payable pursuant to this sentence) paid or payable by Lender in respect of any amount paid by Borrower under this Agreement, together with reasonable out-of-pocket expenses with respect thereto. For purposes of computing interest, Fees and determining Net Borrowing Availability, all payments shall be deemed received by Lender one (1) Business Day following receipt of immediately available funds in the Blocked Accounts.

1.10 Application and Allocation of Payments

Each Borrower irrevocably agrees that Lender shall have the continuing and exclusive right to apply any and all payments against the then due and payable Obligations in such order as Lender may deem advisable. Lender is authorized to, and at its option may (without prior notice or precondition and at any time or times), but shall not be obligated to, make or cause to be made Revolving Credit Advances on behalf of either Borrower, for: (a) payment of all Fees, expenses, indemnities, charges, costs, principal, interest, or other Obligations owing by such Borrower under this Agreement or any of the other Loan Documents; (b) the payment, performance or satisfaction of any of such Borrower's obligations with respect to preservation of the Collateral; or (c) any premium in whole or in part required in respect of any of the policies of insurance required by this Agreement, even if the making of any such Revolving Credit Advance causes the outstanding balance of the Revolving Credit Loan to exceed the Borrowing Availability, and Borrower agrees to repay immediately, in cash, any amount by which the Revolving Credit Loan exceeds the Borrowing Availability.

1.11 Accounting

Lender is authorized to record on its books and records the date and amount of each Loan and each payment of principal thereof and such recordation shall constitute prima facie evidence of the accuracy of the information so recorded, absent manifest error. Lender shall provide Borrower on a monthly basis a statement and accounting of such recordations but any failure on the part of Lender to keep any such recordation (or any errors therein) or to send a statement thereof to Borrowers shall not in any manner affect the obligation of Borrowers to repay any of the Obligations. Except to the extent that a Borrower shall, within thirty (30) days after such statement and accounting is sent, notify Lender in writing of any objection Borrowers may have thereto (stating with particularity the basis for such objection), such statement and accounting shall be deemed final, binding and conclusive upon Borrowers, absent manifest error.

1.12 Indemnity

Borrower and each other Credit Party executing this Agreement jointly and severally agree to indemnify and hold Lender and its Affiliates, and their respective employees, officers, directors, professional advisors and agents (each, an "**Indemnified Person**"), harmless from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and expenses of any kind or nature whatsoever (including legal fees and disbursements and other costs of investigation or defence, including those incurred upon

any appeal) which may be instituted or asserted against or incurred by any such Indemnified Person as the result of credit having been extended, suspended or terminated under this Agreement and the other Loan Documents or with respect to the execution, delivery, enforcement, performance or administration of, or in any other way arising out of or relating to, this Agreement and the other Loan Documents or any other documents or transactions contemplated by or referred to herein or therein and any actions or failures to act with respect to any of the foregoing, including any and all product liabilities, Environmental Liabilities, Taxes and legal costs and expenses arising out of or incurred in connection with any dispute between or among any parties to any of the Loan Documents (collectively, "**Indemnified Liabilities**"), except to the extent that any such Indemnified Liability is finally determined by a court of competent jurisdiction to have resulted solely from such Indemnified Person's gross negligence or wilful misconduct. NO INDEMNIFIED PERSON SHALL BE RESPONSIBLE OR LIABLE TO ANY CREDIT PARTY, ANY SUCCESSOR, ASSIGNEE OR THIRD PARTY BENEFICIARY OR ANY OTHER PERSON ASSERTING CLAIMS DERIVATIVELY THROUGH SUCH PARTY, FOR ANY ACT OR FAILURE TO ACT UNDER ANY POWER OF ATTORNEY OR FOR INDIRECT, PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF CREDIT HAVING BEEN EXTENDED, SUSPENDED OR TERMINATED UNDER THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR AS A RESULT OF ANY OTHER TRANSACTION CONTEMPLATED HEREUNDER OR THEREUNDER.

1.13 Borrowing Base; Reserves

The Borrowing Base shall be determined by Lender (including the eligibility of Accounts and Inventory) based on the most recent Borrowing Base Certificate delivered to Lender in accordance with Section 4.1(a) and such other information available to Lender. The Revolving Credit Loan shall be subject to Lender's continuing right to withhold from Borrowing Availability reserves, and to increase and decrease such reserves from time to time, if and to the extent that in Lender's good faith credit judgment such reserves are necessary, including to protect Lender's interest in the Collateral or to protect Lender against possible non-payment of Accounts for any reason by Account Debtors or possible diminution of the value of any Collateral or possible non-payment of any of the Obligations or for any Taxes or in respect of any state of facts which could constitute a Default. Lender may, at its option, implement reserves by designating as ineligible a sufficient amount of Accounts or Inventory which would otherwise be Eligible Accounts or Eligible Inventory, as the case may be, so as to reduce the Borrowing Base by the amount of the intended reserves.

1.14 Funding Losses

Each Borrower shall jointly and severally reimburse and indemnify Lender and hold Lender harmless from any loss or expense which Lender may sustain or incur as a consequence of:

- (a) the failure of any Borrower to make on a timely basis any payment of principal on any Revolving Credit Advance made based upon the Term SOFR Rate or Adjusted Term CORRA;
- (b) the failure of any Borrower to borrow, continue or convert a Revolving Credit Advance after Borrower has given (or is deemed to have given) a Notice of Borrowing or a Notice of Continuation/Conversion, as the case may be; or
- (c) the prepayment or other payment (including after acceleration thereof but excluding prepayment mandated by the provisions of Section 8.14(b)) of any Revolving Credit Advance made based upon the Term SOFR Rate or Adjusted Term CORRA on a day that is not the last day of the relevant Interest Period;

including any such loss of anticipated profit and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Revolving Credit Advances made based upon the Term

SOFR Rate or Adjusted Term CORRA or from fees payable to terminate the deposits from which such funds were obtained. Borrowers shall also pay any customary and reasonable administrative fees charged by Lender in connection with the foregoing.

1.15 Inability to Determine Rates

If Lender determines, which determination is final, conclusive and binding upon the Borrowers, that,

- (a) for any reason, adequate and reasonable means do not exist for determining Term CORRA or the Term SOFR Rate for any requested Interest Period with respect to a proposed Revolving Credit Advance made based upon Adjusted Term CORRA or the Term SOFR Rate (including, without limitation, because such rate is not available from or published on a current basis by the services used by the Lender to obtain such rate), or
- (b) that Adjusted Term CORRA or the Term SOFR Rate for any requested Interest Period with respect to a proposed Revolving Credit Advance made based upon Adjusted Term CORRA or the Term SOFR Rate does not adequately and fairly reflect the effective cost to Lender of funding such Revolving Credit Advance or the costs to the Lender are increased or the income receivable by the Lender is reduced in respect of Revolving Credit Advance,

then Lender will promptly so notify Borrower. Thereafter, the obligation of Lender to make or maintain Revolving Credit Advances made based upon Adjusted Term CORRA or the Term SOFR Rate, as applicable, hereunder shall be suspended until Lender revokes such notice in writing, and the Lender may request that an existing Term SOFR Loan be converted to a RBUSBR based loan or an existing Term CORRA Loan be covered to a RBP based loan and any such loans will in any event automatically be converted on the expiry of the then current Interest Period. Borrowers may revoke any Notice of Borrowing or Notice of Continuation/Conversion then submitted by it. If Borrowers do not revoke such notice, Lender shall make the Revolving Credit Advance, as proposed by Borrowers, in the amount specified in the applicable notice submitted by Borrowers, but such Revolving Credit Advance shall be made as a RBUSBR based loan instead of a Term SOFR Loan or a RBP based loan instead of a Term CORRA Loan, as the case may be.

1.16 Benchmark Replacement Setting

- (a) **Benchmark Replacement.**
 - (i) Notwithstanding anything to the contrary herein or in any other Loan Document, upon the occurrence of a Benchmark Transition Event, the Lender may amend this Agreement to replace the then-current Benchmark with a Benchmark Replacement. Any such amendment will become effective at 5:00 p.m. (Toronto) time) on the fifth (5th) Business Day after the date such proposed amendment is provided to the Borrower without any action or consent of the Borrower. No replacement of a Benchmark with a Benchmark Replacement pursuant to this Section will occur prior to the applicable Benchmark Transition Start Date.
 - (ii) No Fx Facility documentation shall be deemed to be a "Loan Document" for purposes of this Section.
- (b) **Benchmark Replacement Conforming Changes.** In connection with the use, administration, adoption or implementation of a Benchmark Replacement, the Lender will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will

become effective without any further action or consent of any other party to this Agreement or any other Loan Document.

- (c) **Notices; Standards for Decisions and Determinations.** The Lender will promptly notify the Borrower of (i) the implementation of any Benchmark Replacement, and (ii) the effectiveness of any Benchmark Replacement Conforming Changes. The Lender will promptly notify the Borrower of the removal or reinstatement of any tenor of a Benchmark pursuant to Subsection (d). Any determination, decision or election that may be made by the Lender pursuant to this Section 1.16, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section.
- (d) **Unavailability of Tenor of Benchmark.** Notwithstanding anything to the contrary herein or in any other Loan Document, at any time (including in connection with the implementation of a Benchmark Replacement):
 - (i) if the then-current Benchmark is a term rate (including the Term SOFR Reference Rate), and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by the Lender in its reasonable discretion, or (B) the administrator of such Benchmark or the regulatory supervisor for the administrator of this Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, then the Lender may modify the definition of "Interest Period" (or any similar or analogous definition) for any Benchmark settings at or after such time, to remove such unavailable, non-representative, non-compliant or non-aligned tenor, and
 - (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement), or (B) is not, or is no longer, subject to an announcement that it is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks (including a Benchmark Replacement), then the Lender may modify the definition of "Interest Period" (or any similar or analogous definition) for all Benchmark settings at or after such time, to reinstate such previously removed tenor.
- (e) **Benchmark Unavailability Period.** Upon the Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, the Borrower may revoke any pending request for a Revolving Credit Advance made based upon the Term SOFR Rate, conversion to or rollover of a Revolving Credit Advance made based upon the Term SOFR Rate to be made, converted or rolled over during any Benchmark Unavailability Period and, failing that, the Borrower will be deemed to have converted any such request into a request for, or a conversion to, a Loan based on RBUSBR, as applicable.
- (f) **Definitions.**

- (i) **“Available Tenor”** means, as of any date of determination and with respect to the then current Benchmark, as applicable, (x) if such Benchmark is a term rate, any tenor for such Benchmark (or component thereof) that is or may be used for determining the length of an Interest Period, or (y) otherwise, any payment period for interest calculated with reference to such Benchmark (or component thereof) that is or may be used for determining any frequency of making payments of interest calculated with reference to such Benchmark, in each case as of such date and not including any tenor for such Benchmark that is then-removed from the definition of Interest Period pursuant to Section 1.16(d).
- (ii) **“Benchmark”** means, initially, Adjusted Term SOFR; provided that if a Benchmark Transition Event has occurred with respect to Adjusted Term SOFR or the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to Section 1.16(a).
- (iii) **“Benchmark Replacement”** means, with respect to any Benchmark Transition Event, the sum of:
 - (A) the alternative benchmark rate that has been selected by the Lender and the Borrower giving due consideration to (a) any selection or recommendation of a benchmark rate or mechanism for determining such a rate by the Relevant Governmental Body, and (b) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement to the then-current Benchmark for Canadian dollar denominated bilateral credit facilities in Canada at such time; and
 - (B) the related Benchmark Replacement Adjustment;provided that if such Benchmark Replacement as so determined would be less than the Floor, such Benchmark Replacement shall be deemed to be the Floor for the purposes of this Agreement and the other Loan Documents.
- (iv) **“Benchmark Replacement Adjustment”** means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement, the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero), that has been selected by the Lender and the Borrower giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body, or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for Canadian dollar-denominated bilateral credit facilities in Canada at such time.
- (v) **“Benchmark Replacement Conforming Changes”** means, with respect to either the use or adoption of Term SOFR Rate or the use, adoption, administration or implementation of any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “RBUSTR”, “Business Day,” the definition of “Interest Period” or any similar or analogous definition, timing

and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or rollover notices, the applicability and length of lookback periods, the applicability of breakage provisions, and other technical, administrative or operational matters) that the Lender decides may be appropriate to reflect the adoption and implementation of such rate or to permit the administration thereof by the Lender in a manner substantially consistent with market practice (or, if the Lender decides that adoption of any portion of such market practice is not administratively feasible or if the Lender determines that no market practice for the administration of such rate exists, in such other manner of administration as the Lender decides is reasonably necessary in connection with the administration of this Agreement and the other Loan Documents).

- (vi) **"Benchmark Replacement Date"** means the earliest to occur of the following events with respect to the then-current Benchmark:
- (A) In the case of Clause (A) or Clause (B) of the definition of "Benchmark Transition Event", the later of (i) the date of the public statement or publication of information referenced therein, and (ii) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof); or
 - (B) In the case of Clause (C) of the definition of "Benchmark Transition Event", the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by or on behalf of the administrator of such Benchmark (or such component thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) to be non-representative or non-compliant with or non-aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks; provided that such non-representativeness, noncompliance or non-alignment will be determined by reference to the most recent statement or publication referenced in such Clause (C) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date. For the avoidance of doubt, the "Benchmark Replacement Date" will be deemed to have occurred in the case of Clause (A) or Clause (B) of this definition with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).
- (vii) **"Benchmark Transition Event"** means, with respect to any Benchmark, the occurrence of one or more of the following events with respect to such then-current Benchmark:
- (A) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);

- (B) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof), the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Term SOFR Administrator, an insolvency official with jurisdiction over the administrator for such Benchmark (or such component thereof), a resolution authority with jurisdiction over the administrator for such Benchmark (or such component thereof) or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark (or such component thereof), which states that the administrator of such Benchmark (or such component thereof) has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof); or
- (C) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) announcing that all Available Tenors of such Benchmark (or such component thereof) are not, or as of a specified future date will not be, representative or in compliance with or aligned with the International Association of Securities Commissions (IOSCO) Principles for Financial Benchmarks.

For the avoidance of doubt, a "Benchmark Transition Event" will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

- (viii) "**Benchmark Transition Start Date**" means, in the case of a Benchmark Transition Event, the earlier of (a) the applicable Benchmark Replacement Date, and (b) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of the date of such public statement or publication of information (or, if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication).
- (ix) "**Benchmark Unavailability Period**" means, the period (if any) (a) beginning at the time that a Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 1.16, and (b) ending at the time that a Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 1.16.
- (x) "**Relevant Governmental Body**" means the Board of Governors of the Federal Reserve System of the United States or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System of the United States or the Federal Reserve Bank of New York, or any successor thereto.

- (xi) **"Unadjusted Benchmark Replacement"** means the applicable Benchmark Replacement excluding the related Benchmark Replacement Adjustment

1.17 Canadian Benchmark Replacement Setting

- (a) Canadian Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Loan Document, if a Canadian Benchmark Transition Event and its related Canadian Benchmark Replacement Date have occurred prior any setting of the then-current Canadian Benchmark, then (x) if a Canadian Benchmark Replacement is determined in accordance with clause (a) of the definition of "Canadian Benchmark Replacement" for such Canadian Benchmark Replacement Date, such Canadian Benchmark Replacement will replace such Canadian Benchmark for all purposes hereunder and under any Loan Document in respect of such Canadian Benchmark setting and subsequent Canadian Benchmark settings without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document and (y) if a Canadian Benchmark Replacement is determined in accordance with clause (b) of the definition of **"Canadian Benchmark Replacement"** for such Canadian Benchmark Replacement Date, such Canadian Benchmark Replacement will replace such Canadian Benchmark for all purposes hereunder and under any Loan Document in respect of any Canadian Benchmark setting at or after 5:00 p.m. (Toronto time) on the fifth (5th) Business Day after the date notice of such Canadian Benchmark Replacement is provided to the Borrowers without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document.
- (b) Canadian Conforming Changes. In connection with the use, administration, adoption or implementation of a Canadian Benchmark Replacement, the Lender will have the right to make such Canadian Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Canadian Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Loan Document.
- (c) Notices; Standards for Decisions and Determinations. The Lender will promptly notify the Borrowers of (i) the implementation of any Canadian Benchmark Replacement and (ii) the effectiveness of any such Canadian Conforming Changes in connection with the use, administration, adoption or implementation of a Canadian Benchmark Replacement. The Lender will notify the Borrowers of (x) the removal or reinstatement of any tenor of a Canadian Benchmark pursuant to Section 1.17(d) and (y) the commencement of any Canadian Benchmark Unavailability Period. Any determination, decision or election that may be made by the Lender pursuant to this Section 1.17 including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party to this Agreement or any other Loan Document, except, in each case, as expressly required pursuant to this Section 1.17.
- (d) Unavailability of Tenor of Canadian Benchmark. Notwithstanding anything to the contrary herein or in any other Loan Document, at any time (including in connection with the implementation of a Canadian Benchmark Replacement), (i) if the then-current Canadian Benchmark is a term rate (including Term CORRA) and either (A) any tenor for such Canadian Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by the Lender in its reasonable discretion or (B) the regulatory supervisor for the administrator of such Canadian Benchmark has

provided a public statement or publication of information announcing that any tenor for such Canadian Benchmark is not or will not be representative, then the Lender may modify the definition of "Interest Period" (or any similar or analogous definition) for any Canadian Benchmark settings at or after such time to remove such unavailable or non-representative tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Canadian Benchmark (including a Canadian Benchmark Replacement) or (B) is not, or is no longer, subject to an announcement that it is not or will not be representative for a Canadian Benchmark (including a Canadian Benchmark Replacement), then the Lender may modify the definition of "Interest Period" (or any similar or analogous definition) for all Canadian Benchmark settings at or after such time to reinstate such previously removed tenor.

- (e) Canadian Benchmark Unavailability Period. Upon the Borrower's receipt of notice of the commencement of a Canadian Benchmark Unavailability Period, the Borrowers may revoke any pending request for a Revolving Credit Advances of, conversion to or continuation of Loans, which are of the type that have a rate of interest determined by reference to the then-current Canadian Benchmark, to be made, converted or continued during any Canadian Benchmark Unavailability Period and, failing that, the Borrowers will be deemed to have converted any such request into a request for a Revolving Credit Advance of or conversion to (i) for a Canadian Benchmark Unavailability Period in respect of Term CORRA, Daily Compounded CORRA Loans, and (ii) for a Canadian Benchmark Unavailability Period in respect of a Canadian Benchmark other than RBP based Loans.

SECTION 2 – CONDITIONS PRECEDENT

2.1 Conditions to the Initial Loans

Lender shall not be obligated to make any of the Loans or to perform any other action hereunder, until the following conditions have been satisfied in a manner satisfactory to Lender in its sole discretion, or waived in writing by Lender:

- (a) the Loan Documents to be delivered on or before the Closing Date shall have been duly executed and delivered by the appropriate parties, all as set forth in the Schedule of Documents (Schedule F);
- (b) Lender shall have received evidence that all of the obligations of the Credit Parties to Royal Bank of Canada under the Existing Credit Facility as in effect immediately prior to the Closing Date will be performed and paid in full from the proceeds of the initial Loans;
- (c) Lender shall have received and shall be satisfied with such estoppel letters, landlord waivers, mortgagee, processor and bailee waivers and such other consents (including consents from Governmental Authorities) as Lender may require in its discretion;
- (d) Lender shall have received and shall be satisfied with such subordination and intercreditor agreements as Lender may require in its discretion;
- (e) the insurance policies provided for in Section 3.16 shall be in full force and effect, together with appropriate evidence showing loss payable or additional insured clauses or endorsements in favour of Lender as required under such Section;
- (f) as of the Closing Date, Net Borrowing Availability shall be not less than \$8,000,000 after giving effect to the initial Revolving Credit Advances and Letter of Credit Obligations (calculated on a pro forma basis, with trade payables being paid currently, and expenses

and liabilities being paid in the ordinary course of business and without acceleration of sales);

- (g) [reserved];
- (h) Lender shall have received opinions of counsel to each of the Credit Parties (including opinions relating to enforceability, the Lender's security in each relevant jurisdiction and such other matters as the Lender reasonably considers necessary in its discretion) with respect to each Loan Document in form and substance satisfactory to Lender;
- (i) Lender (and where applicable, Lender's counsel) shall have completed and be satisfied with the results of all business, environmental and legal due diligence (including review with results satisfactory to Lender of Borrower's union contracts, if applicable);
- (j) Lender shall have received and be satisfied with the results of, Borrower's field exam, and with regard to the Collateral, the inventory control systems, the books and records and the reporting capability of the Credit Parties;
- (k) Lender shall have been provided with and be satisfied with its review of, each Credit Parties' documents regarding its corporate and capital structure, Material Contracts, debt instruments and governing documents;
- (l) Lender shall have reviewed and be satisfied with Credit Parties' customers' contracts (including distribution agreements, licence agreements and supply agreements) and, if requested by Lender, the purchase orders relating thereto;
- (m) Lender shall have completed and be satisfied with the results of the background and reference checks on Borrower, senior management of Borrowers and the other Credit Parties and shall have received all documentation and other information required by regulatory and governmental authorities under applicable "know-your-customer", sanctions and anti-money laundering rules and regulations;
- (n) Lender shall have received, and same shall continue to be valid and current, certified copies of all the constating documents, by-laws and resolutions of the directors (or partners, members or shareholders as required by Lender) authorizing the Loan Documents, and certificates of incumbency, for Borrowers and each other Credit Party;
- (o) Lender shall have received and be satisfied with the Borrowers' (i) most recent individual and consolidated Projections for the 24 months following the Closing Date (including projections of balance sheet, operating results, cash flows, Capital Expenditures and Net Borrowing Availability), and (ii) updated aged accounts receivable listing (supported by detailed rebates payable), aged accounts payable listing and detailed inventory listing;
- (p) a Compliance Certificate shall have been submitted prior to the Closing Date confirming all required covenants have been met; and
- (q) the Lender shall have received all fees and other amounts due and payable on or prior to the Closing Date, including, reimbursement or payment of all for all costs and expenses (including the fees and expenses of all counsel, advisors, consultants (including environmental and management consultants), field examiners, appraisers required to be reimbursed or paid by the Borrowers hereunder or under any other Loan Document.

2.2 Further Conditions to the Loans

Lender shall not be obligated to fund any Loan (including the initial Loan(s)), if, as of the date thereof:

- (a) any representation or warranty by any Credit Party contained herein or in any of the other Loan Documents shall be untrue or incorrect as of such date, except to the extent that any such representation or warranty is expressly stated to relate to a specific earlier date, in which case, such representation and warranty shall be true and correct as of such earlier date;
- (b) any event or circumstance, which has had or reasonably could be expected to have a Material Adverse Effect, shall have occurred since the Closing Date;
- (c) any Default shall have occurred and be continuing or would result after giving effect to such Loan; or
- (d) after giving effect to such Loan, the Revolving Credit Loan would exceed the Borrowing Availability.

The request and acceptance by a Borrower of the proceeds of any Loan shall be deemed to constitute, as of the date of such request and the date of such acceptance: (i) a representation and warranty by Borrowers that the conditions in this Section 2.2 have been satisfied; and (ii) a restatement by Borrowers of each of the representations and warranties made by it in each Loan Document and a reaffirmation by Borrowers of the granting and continuance of Lender's Liens pursuant to the Loan Documents.

SECTION 3 – REPRESENTATIONS, WARRANTIES AND AFFIRMATIVE COVENANTS

To induce Lender to enter into this Agreement and to make the Loans, each Borrower and each other Credit Party executing this Agreement represent and warrant to Lender (each of which representations and warranties shall survive the execution and delivery of this Agreement), and promise to and agree with Lender at all times until the Termination Date as follows:

3.1 Corporate Existence; Compliance with Law; Investment Company

Each Credit Party:

- (a) is, as of the Closing Date, and will continue to be: (i) a corporation or partnership, as applicable, duly organized, validly existing, registered and in good standing under the laws of the jurisdiction of its incorporation or formation; (ii) duly qualified to do business and in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect; and (iii) in compliance with all Requirements of Law, including without limitation, laws relating to the prevention of money laundering and terrorist financing and Contractual Obligations, except to the extent failure to comply therewith could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;
- (b) has and will continue to have: (i) the requisite power and authority and the legal right to execute, deliver and perform its obligations under the Loan Documents, and to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease, and to conduct its business as now, heretofore or proposed to be conducted; and (ii) all licenses, permits, franchises, rights, powers, consents or approvals

from or by all Persons or Governmental Authorities having jurisdiction over such Credit Party which are necessary or appropriate for the conduct of its business;

- (c) is Solvent; and
- (d) is not an “investment company”, or a company “controlled” by a “registered investment company” or a “principal underwriter” of a “registered investment company”, within the meaning of the Investment Company Act of 1940, as amended.

3.2 Executive Offices; Corporate or Other Names

The full legal name of and jurisdiction of organization of each Credit Party and each of its Subsidiaries is set forth on Disclosure Schedule (3.2). The location of each Credit Party’s chief executive office, corporate offices, warehouses, other locations of Collateral and locations where records with respect to Collateral are kept (including in each case the county of such locations) are as set forth in Disclosure Schedule (3.2) and, except as set forth in such Disclosure Schedule, such locations have not changed during the preceding twelve (12) months. As of the Closing Date, during the prior five years, except as set forth in Disclosure Schedule (3.2), no Credit Party has been known as or conducted business in any other name (including trade or business names). Disclosure Schedule (3.2) also sets forth the corporate organizational chart of the Credit Parties as of the Closing Date.

3.3 Corporate Power; Authorization; Enforceable Obligations

The execution, delivery and performance by each Credit Party of the Loan Documents to which it is a party, and the creation of all Liens provided for herein and therein: (a) are and will continue to be within such Credit Party’s power and authority; (b) have been and will continue to be duly authorized by all necessary or proper action; (c) are not and will not be in violation of any Requirement of Law or Contractual Obligation of such Credit Party (except in the case of Contractual Obligations, where such violation would not reasonably be expected to result in a Material Adverse Effect) ; (d) do not and will not result in the creation or imposition of any Lien (other than in favour of Lender) upon any of the Collateral; and (e) do not and will not require the consent or approval of any Governmental Authority (except in the case of the assignment of any receivables from a Governmental Authority) or any other Person, where such violation would not reasonably be expected to result in a Material Adverse Effect. As of the Closing Date, each Loan Document shall have been duly executed and delivered on behalf of each Credit Party thereto, and each such Loan Document upon such execution and delivery shall be and will continue to be a legal, valid and binding obligation of such Credit Party, enforceable against it in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency and other similar laws affecting creditors’ rights generally.

3.4 Financial Statements and Projections; Books and Records

- (a) The Financial Statements delivered by Borrowers to Lender for its most recently ended Fiscal Year, Fiscal Quarter or and Fiscal Month, as applicable, are true, correct and complete and reflect fairly and accurately the financial condition of Borrowers as of the date of each such Financial Statement in accordance with GAAP with the exception that the monthly statements do not include full note disclosure or tax accruals. The Projections most recently delivered by Borrowers to Lender have been prepared in good faith, with care and diligence and use assumptions that are reasonable under the circumstances at the time such Projections were prepared and as of the date delivered to Lender and all such assumptions are disclosed in the Projections; and
- (b) Each Borrower and the other Credit Parties shall keep adequate Books and Records with respect to the Collateral and its business activities in which proper entries, reflecting all

consolidated and consolidating financial transactions, and payments and credits received on, and all other dealings with, the Collateral, shall be made in accordance with GAAP and all Requirements of Law and on a basis consistent with the Financial Statements.

3.5 Material Adverse Change

Between the date of the most recent audited consolidated Financial Statements of the Canadian Borrower delivered to Lender and the Closing Date: (a) no Credit Party has incurred any obligations (except the Convertible Debentures), contingent or non-contingent liabilities, or liabilities for Charges, long-term leases or unusual forward or long-term commitments which are not reflected in the unaudited consolidated monthly financial statements which could, alone or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (b) no events have occurred which alone or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect. No Credit Party is in default, and to such Credit Party's knowledge, no third party is in default, under or with respect to any of its Contractual Obligations, which alone or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect.

3.6 Real Estate; Property

The real estate listed in Disclosure Schedule (3.6) constitutes, as of the Closing Date, all of the (i) real property owned, or (ii) leased or used by each Credit Party in its business having Collateral in excess of \$50,000, and such Credit Party will not execute any material agreement or contract in respect of the material real estate after the date of this Agreement without giving Lender prompt prior written notice thereof. Each Credit Party holds and will continue to hold good and marketable fee simple title to all of its owned real estate, and good and marketable title to all of its other properties and assets, and valid and insurable leasehold interests in all of its leases (both as lessor and lessee, sublessee or assignee), and none of the properties and assets of any Credit Party are or will be subject to any Liens, except Permitted Encumbrances. With respect to each of the premises identified in Disclosure Schedule (3.6) on or prior to the Closing Date, a bailee, landlord or mortgagee waiver acceptable to Lender has been obtained except as expressly noted in Disclosure Schedule (3.6).

3.7 Ventures, Subsidiaries and Affiliates; Outstanding Shares and Indebtedness

As at the Closing Date, the ownership structure of the Canadian Borrower and its Subsidiaries is as set out in forth in Disclosure Schedule (3.7) and except as set forth in such schedule, no Credit Party has any Subsidiaries, is engaged in any joint venture or partnership with any other Person, or conducts any of its business with an Affiliate. Except for the Canadian Borrower, all of the issued and outstanding Shares of each Credit Party (including all rights to purchase options, warrants or similar rights or agreements pursuant to which any Credit Party may be required to issue, sell, repurchase or redeem any of its Shares) as of the Closing Date are registered in the name of each of the Shareholders (and in the amounts) set forth on Disclosure Schedule (3.7) or an updated Schedule (3.7) delivered pursuant to Section 4.2.

3.8 Government Regulations

To the extent any Credit Party is subject to or regulated under any federal, provincial, territorial or state statute, rule or regulation that restricts or limits such Person's ability to incur Indebtedness, pledge, hypothecate, mortgage or otherwise encumber its assets, or to perform its obligations under the Loan Documents, any such Credit Party has complied with such laws. The making of the Loans, the application of the proceeds and repayment thereof, and the consummation of the transactions contemplated by the Loan Documents do not and will not violate any Requirement of Law.

3.9 Taxes; Charges

Except as disclosed on Disclosure Schedule (3.9), all tax returns, reports and statements required by any Governmental Authority to be filed by each Borrower or any other Credit Party have, as of the Closing Date, been filed and will, until the Termination Date, be filed with the appropriate Governmental Authority and no tax Lien (other than Permitted Encumbrances) has been filed against any Credit Party or any Credit Party's property. Proper and accurate amounts have been and will be withheld by each Borrower and each other Credit Party from their respective past or present employees for all periods in complete compliance with all Requirements of Law and such withholdings have been and will be timely paid to the appropriate Governmental Authorities. Disclosure Schedule (3.9) sets forth as of the Closing Date those taxable years for which any Credit Party's tax returns are currently being audited by the Canada Revenue Agency, the Internal Revenue Service or any other applicable Governmental Authority and any assessments or threatened assessments in connection with such audit, or otherwise currently outstanding. Except as described on Disclosure Schedule (3.9), none of the Credit Parties nor their respective predecessors are liable for any Charges related to taxes: (a) under any agreement (including any tax sharing agreements or agreement extending the period of assessment of any Charges); or (b) to each Credit Party's knowledge, as a transferee.

3.10 Payment of Obligations

Each Credit Party will pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all of its Charges and other obligations of whatever nature, except where the amount or validity thereof is at such time being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of such Credit Party and none of the Collateral is or could reasonably be expected to become subject to any Lien or forfeiture or loss as a result of such contest.

3.11 Pension Plans

Disclosure Schedule (3.11) lists all Plans applicable to the Credit Parties (other than, for greater certainty, Plans maintained by the Government of Canada or any Government of a Province of Canada to which a Credit Party is obligated to contribute under any applicable law). Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal, state, provincial or territorial laws. No Pension Event has occurred or is reasonably expected to occur. The aggregate amount of all normal contributions (as such term is defined for the purpose of the BIA) accruing due but not paid or remitted, all amounts withheld from employees and not paid or remitted and other amounts which might give rise to a Lien giving any priority under the BIA shall never exceed the Minimum Actionable Amount. Notwithstanding anything to the contrary in this Agreement, to the extent that Lender determines that any Lien associated with any Pension Event could reasonably be expected to have priority to any Lien established by Lender, a reserve will immediately be established in an amount that Lender deems necessary in its sole and absolute discretion (it being understood that such amount may equal the amount of the obligation secured by such Lien), and to the extent that after the establishment of such reserve the Revolving Credit Loans exceed Borrowing Availability and such overadvance is not cured within two (2) days, it shall be an immediate Event of Default. No ERISA Event has occurred or is reasonably expected to occur. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than the Minimum Actionable Amount the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent Financial Statements reflecting such amounts, exceed by more than the Minimum Actionable Amount, the fair market value of the assets of all such underfunded Plans.

3.12 Litigation

No Litigation is pending or, to the knowledge of any Credit Party, threatened against any Credit Party or against any Credit Party's properties or revenues: (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby; or (b) which, if adversely determined, could reasonably be expected to have a Material Adverse Effect. Except as set forth on Disclosure Schedule (3.12), as of the Closing Date, there is no Litigation pending or threatened against any Credit Party which seeks damages in excess of the Minimum Actionable Amount or injunctive relief or alleges criminal misconduct of any Credit Party.

3.13 Intellectual Property

As of the Closing Date, all material Intellectual Property owned or used by any Credit Party is listed, together with application or registration numbers, where applicable, in Disclosure Schedule (3.13). Each Credit Party owns, or is licensed to use, all Intellectual Property necessary to conduct its business as currently conducted except for such Intellectual Property the failure of which to own or license could not reasonably be expected to have a Material Adverse Effect. Each Credit Party will maintain the patenting and registration of all Intellectual Property owned by it with the appropriate Governmental Authority and each Credit Party will promptly apply to patent or register, as the case may be, all new Intellectual Property developed by it and notify Lender in writing five (5) Business Days after filing any such new patent or registration provided that in each case the patenting or registration of such Intellectual Property is commercially reasonable or necessary and the failure to patent or register could reasonably be expected to result in a Material Adverse Effect.

3.14 Full Disclosure/Know Your Customer

No information contained in any Loan Document, the Financial Statements or any written statement furnished by or on behalf of any Credit Party under any Loan Document, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. Without limitation to any other term hereof, each Credit Party shall provide Lender with such documentation and other evidence as is determined necessary by Lender in or for it to be satisfied that it has complied and all times will comply with all "know your customer" requirements under all applicable Requirements of Law (including in connection with any change of laws or requirement or any proposed or actual assignment by Lender). To the extent applicable, each Credit Party is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "Patriot Act"). No part of the proceeds of the Loans made hereunder will be used by any Credit Party or any of its Affiliates, directly or indirectly, for any payments to any subsidiary, joint venture partner, governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, or any other Person (i) in furtherance of an offer, payment, promise to pay or authorization of the payment of giving of money, or anything else of value, to any Person in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder, or any other applicable anti-corruption law.

3.15 Environmental Matters

Except as set forth on Disclosure Schedule (3.15), as of the Closing Date: (a) each real property location owned, leased or occupied by or otherwise in the charge, management or control of each Credit Party (the "**Real Property**") is maintained free of material contamination that is required by the applicable Environmental Laws to be removed, remediated or mitigated; (b) no Credit Party is subject to any Environmental Liabilities or, to any Credit Party's knowledge, potential Environmental Liabilities, in excess of the Minimum Actionable Amount in the aggregate; (c) no notice has been received by any Credit Party

identifying it as a “potentially responsible party” or otherwise identifying it as a potentially liable party or requesting information under the EPA or analogous federal or provincial laws, in each case, to the extent applicable, and to the knowledge of any Credit Party, there are no facts, circumstances or conditions that may result in any Credit Party being identified as a “potentially responsible party” under the EPA or analogous federal or provincial laws, in each case, to the extent applicable; and (d) each Credit Party has provided to Lender copies of all existing environmental reports, reviews and audits and all written information pertaining to actual or potential Environmental Liabilities, in each case relating to each Real Property location. Each Credit Party shall comply in all material respects with all applicable Environmental Laws and environmental permits.

3.16 Insurance

As of the Closing Date, Disclosure Schedule (3.16) lists all insurance of any nature maintained for current occurrences by each Credit Party, as well as a summary of the terms of such insurance. Each Credit Party shall deliver to Lender certificates of insurance evidencing all of its and those of its Subsidiaries: (a) “All Risks” and business interruption insurance policies naming Lender as loss payee; and (b) commercial general liability policies naming Lender as an additional insured. All policies of insurance on real and personal property will be adequate in form, substance, scope and amount and will contain an endorsement, all in form and substance acceptable to Lender, showing loss payable to Lender (I.B.C. Form 3000 or equivalent) and extra expense and business interruption endorsements. Such endorsement, or an independent instrument furnished to Lender, will provide that the insurance companies will give Lender at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or cancelled and that no act or default of any Borrowers or any other Person shall affect the right of Lender to recover under such policy or policies of insurance in case of loss or damage. Each Credit Party shall direct all present and future insurers under its “All Risk” policies of insurance to pay all proceeds payable thereunder directly to Lender. If any insurance proceeds are paid by cheque, draft or other instrument payable to any Credit Party and Lender jointly, Lender may endorse such Credit Party’s name thereon and do such other things as Lender may deem advisable to reduce the same to cash. Lender reserves the right at any time, upon review of each Credit Party’s risk profile, to require additional forms and limits of insurance, to be obtained on thirty (30) days notice to the applicable Credit Party, provided such insurance is available and can be obtained on commercially reasonable terms. Each Credit Party shall, on each anniversary of the Closing Date and from time to time at Lender’s request, deliver to Lender a report by a reputable insurance broker, satisfactory to Lender, with respect to such Credit Party’s insurance policies. Each Credit Party will maintain all such insurance in effect during the term of this Agreement.

3.17 Bank Accounts

Each Borrower and the other Credit Parties shall maintain deposit and/or other accounts, including the Blocked Accounts and Disbursement Accounts, with Lender or an Affiliate of Lender acceptable to Lender and will not have any other bank accounts except for the accounts shown on Disclosure Schedule (3.17) without the prior consent of Lender.

3.18 Accounts and Inventory

As of the date of each Borrowing Base Certificate delivered to Lender, each Account listed thereon as an Eligible Account shall be an Eligible Account and all Inventory listed thereon as Eligible Inventory shall be Eligible Inventory. No Credit Party has made, and will not make, any agreement with any Account Debtor for any extension of time for the payment of any Account, any compromise or settlement for less than the full amount thereof, any release of any Account Debtor from liability therefor, or any deduction therefrom except a discount or allowance for prompt or early payment allowed by a Credit Party or except for any extensions of time for payment in the ordinary course of its business consistent with historical practice, or after taking into account current COVID pandemic conditions, and as previously disclosed to Lender in writing. Disclosure Schedule (3.18) sets forth each Account Debtor from whom a Credit Party has obtained

an offset waiver in form and substance satisfactory to Lender. With respect to the Accounts pledged as collateral pursuant to any Loan Document: (a) the amounts shown on all invoices, statements and reports which may be delivered to Lender with respect thereto are actually and absolutely owing to the relevant Credit Party as indicated thereon and are not in any way contingent; (b) no payments have been or shall be made thereon except payments immediately delivered to the applicable accounts described in paragraph 1 of Schedule D or Lender as required hereunder; and (c) to each Credit Parties' knowledge, all Account Debtors have the capacity to contract.

3.19 Conduct of Business

Each Credit Party: (a) shall conduct its business substantially as now conducted or as otherwise permitted hereunder; and (b) shall at all times maintain, preserve and protect all of the Collateral and all of such Credit Party's other property and assets, used or useful in the conduct of its business and keep the same in good repair, working order and condition and make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices.

3.20 Material Contracts

As at the Closing Date, all of the Material Contracts of the Credit Parties are described in Schedule G. No Credit Party has received any notice of default or termination under any Material Contracts and are not aware of any default upon the basis of which the other party to any such agreement could terminate such agreement.

3.21 Further Assurances

At any time and from time to time, upon the written request of Lender and at the sole expense of Borrowers, Borrowers and each other Credit Party shall promptly and duly execute and deliver any and all such further financing statements, financing change statements, instruments and documents and take such further action as Lender may reasonably deem desirable: (a) to obtain the full benefits of this Agreement and the other Loan Documents; (b) to protect, preserve and maintain Lender's rights in any Collateral; or (c) to enable Lender to exercise all or any of the rights and powers herein granted.

3.22 Default

No Default or Event of Default has occurred and is continuing.

3.23 Sanctions

No Credit Party nor any of its Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC or Canadian Anti-Terrorism Laws. No Credit Party nor any of its Subsidiaries: (a) is a Sanctioned Person or a Sanctioned Entity; (b) has assets located in Sanctioned Entities; (c) derives revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities; or (d) engages in any dealing or transactions prohibited by Canadian Anti-Terrorism Laws. The proceeds of any loan made hereunder will not be used (A) to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity or (B) in any other manner that would result in a violation of such sanctions by any Person.

3.24 Margin Regulations

No Credit Party is, or will be, engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

3.25 Post-Closing Undertakings

The Credit Parties will ensure that all post closing undertakings as set forth in Schedule J (collectively, the “**Post-Closing Undertakings**”) have been satisfied within the time periods set forth therein and any failure to satisfy any of the Post-Closing Undertakings within the applicable time periods shall constitute an Event of Default.

SECTION 4 – FINANCIAL REPORTS, INFORMATION AND NOTICES

4.1 Reports and Information

From the Closing Date until the Termination Date, the Borrowers shall deliver to Lender:

- (a) as frequently as Lender may reasonably request and in any event no less than (i) within fifteen (15) Business Days following the end of each Fiscal Month or (ii) during a Cash Dominion Period, weekly on a day agreed upon between Lender and Borrowers and by 12:00 p.m. (Toronto time) on that day,
 - (i) a Borrowing Base Certificate in the form of Exhibit B as of the close of business of the previous Business Day or previous Fiscal Month, as applicable, detailing the calculation of the Borrowing Base, certified as true and correct by an Authorized Officer,
 - (ii) an accounts receivable roll forward analysis in the form of Attachment 1 to Exhibit B,
 - (iii) an Inventory perpetual listing,
 - (iv) Aged accounts payable listing, aged accounts receivable listing and if requested by the Lender, reconciliations of the aged accounts receivable listing to the general ledger and from the general ledger to the Financial Statements, and
 - (v) electronic copies of all accounts receivable, accounts payable and inventory ledgers, subledgers and other backup as Lender may reasonably require.
- (b) within thirty (30) days following the end of each Fiscal Month:
 - (i) for each Borrower, its aged accounts payable listing by creditor, its aged accounts receivable listing by Account Debtor, its Inventory perpetual or physical listing and if requested by Lender, reconciliations of the aged accounts receivable listing by Account Debtor and the Inventory perpetual or physical listing (as the case may be) to each Borrower’s trial balance and from the trial balance to the Financial Statements for such Fiscal Month, accompanied by supporting detail and documentation as Lender may reasonably request;
 - (ii) its trial balance for such Fiscal Month;
 - (iii) for each Borrower, on a consolidated basis, Financial Statements for such Fiscal Month, which shall provide comparisons to budget and actual results for the corresponding period during the prior Fiscal Year, both on a monthly and year-to-date basis;
 - (iv) a Compliance Certificate, together with a statement in the form of Attachment 1 to Exhibit C, showing the calculations used in determining compliance with the financial covenants hereunder; and

- (v) an updated Schedule G with the compliance certificate delivered pursuant to Section 4.1(b)(iv).
- (c) within one hundred and twenty (120) days following the end of each Fiscal Year, the consolidated audited Financial Statements for such Fiscal Year audited without qualification by an independent qualified accounting firm reasonably acceptable to Lender, which shall provide comparisons to the prior Fiscal Year, together with any management letter that may be issued;
- (d) within sixty (60) days following the end of each Fiscal Year, consolidated Projections, by month for the next Fiscal Year prepared by Borrowers in a manner consistent with GAAP and accompanied by senior management's discussion and analysis of such plan and prepared by Borrower in good faith, with care and diligence, and using assumptions which are reasonable under the circumstances at the time such Projections are delivered to Lender and disclosed therein when delivered; and
- (e) all the other reports and information set forth in Exhibit B in the time frames set forth therein.

4.2 Notices

- (a) Borrowers shall advise Lender:
 - (i) as soon as practicable, on becoming aware, in reasonable detail, of:
 - (A) any Lien, other than Permitted Encumbrances, attaching to or asserted against any of the Collateral or any occurrence causing a material loss or decline in value of any Collateral and the estimated (or actual, if available) amount of such loss or decline;
 - (B) any material change in the composition of the Collateral;
 - (C) the occurrence of any Default or other event which has had or could reasonably be expected to have a Material Adverse Effect;
 - (D) the existence or commencement of any Litigation against any Credit Party or any Plan, seeking damages of more than the Minimum Actionable Amount, in each case, if applicable, or any allegation of criminal misconduct against any Credit Party; and
 - (E) any event or circumstance which, to such Credit Parties' knowledge would cause Lender to consider any then existing Account or Inventory as no longer constituting an Eligible Account or Eligible Inventory, as the case may be.
 - (ii) if and when it becomes aware of any Release, on, at, in, under, above, to, from or about any of its Real Property in writing within seven (7) Business Days and shall promptly forward to Lender a copy of any order, notice, permit, application, or any communication or report received by it or any other Credit Party in connection with any such Release;
 - (iii) promptly of any issuance of securities by the U.S. Borrower to any Person other than the Canadian Borrower; and

- (iv) as soon as practicable, update Schedule (3.7) to reflect any issuance of securities by the U.S. Borrower.
- (b) Each Credit Party shall, upon request of Lender, furnish to Lender such other reports and information in connection with the affairs, business, financial condition, operations, prospects or management of the Credit Parties or the Collateral as Lender may reasonably request, all in reasonable detail.

SECTION 5 – FINANCIAL AND NEGATIVE COVENANTS

5.1 Financial Covenants

- (a) Upon an FCCR Trigger and each subsequent Fiscal Month thereafter until the Fiscal Month in which Net Borrowing Availability exceeds \$5,000,000 for at least thirty (30) consecutive calendar days, the Canadian Borrower shall maintain a consolidated Fixed Charge Coverage Ratio of not less than 1.10:1.00 calculated on a trailing twelve (12) month basis and tested as of the end of each Fiscal Month.

5.2 Negative Covenants

Each Credit Party covenants to Lender that so long as this Agreement is in effect:

- (a) such Credit Party shall not form any Subsidiary or merge with, amalgamate with, consolidate with, acquire all or substantially all of the assets or capital stock of, or otherwise combine with or make any investment in or, make a loan or advance to, any Person, except as provided in Section 5.2(c) below or except for transactions between Credit Parties; provided that, if any such transaction among Credit Parties involves a Borrower, the Borrower shall be the continuing or surviving Person or the surviving Person shall expressly assume the obligations of the Borrower pursuant to documents reasonably acceptable to the Lender and the Borrower (or, if not the Borrower, the surviving Person) and shall be a corporation, a limited liability company or partnership organized under the laws of Canada or the United States;
- (b) such Credit Party shall not cancel any debt owing to it (other than the write off of accounts receivable (excluding Eligible Accounts) in the normal course) or create, incur, assume or permit to exist any Indebtedness, except: (i) the Obligations; (ii) Indebtedness existing as of the Closing Date set forth on Disclosure Schedule (5.2(b)); (iii) Indebtedness pursuant to the RBC Leasing Facility, as amended, modified or supplemented from time to time; (iv) deferred taxes; (v) by endorsement of instruments or items of payment for deposit to the general account of such Credit Party; (vi) Guaranteed Indebtedness incurred for the benefit of Borrower if the primary obligation is permitted by this Agreement; (vii) Capital Lease Obligations and Indebtedness in respect of Purchase Money Indebtedness not to exceed \$5,000,000; (viii) Indebtedness in respect of corporate credit cards in an amount not to exceed \$1,000,000; (ix) Indebtedness between the Credit Parties; (x) Indebtedness pursuant to the Convertible Debentures; and (xi) additional Indebtedness incurred after the Closing Date in an aggregate outstanding amount for all such Credit Parties combined not exceeding the Minimum Actionable Amount;
- (c) such Credit Party shall not enter into any lending, borrowing or other commercial transaction with any of its employees, directors, Affiliates or any other Credit Party other than (i) loans or advances made by one Credit Party to any other Credit Party; (ii) loans or advances to employees in the ordinary course of business in an aggregate outstanding amount not exceeding the Minimum Actionable Amount; and (iii) Permitted Investments

made by the Credit Parties, provided that the aggregate amount of all such Permitted Investments outstanding at any time (valued at the time such investment was originally made) shall not exceed the lesser of \$5,000,000 and 10% of the Adjusted EBITDA of the Borrower for the most recently completed twelve month period; and (iv) the sale, at fair market value, of raw materials, inventory and finished goods between Credit Parties;

- (d) such Credit Party shall not make any changes in any of its business objectives, purposes, or operations which could reasonably be expected to adversely affect repayment of the Obligations or could reasonably be expected to have a Material Adverse Effect, or engage in any business other than that presently engaged in, ancillary thereto, except as permitted by Section 5.2(g) below, or amend its charter or by-laws or other organizational documents;
- (e) such Credit Party shall not create or permit any Lien on any of its properties or assets, except for Permitted Encumbrances;
- (f) such Credit Party shall not sell, transfer, convey, assign or otherwise dispose of any of its assets or properties, including its Accounts or any Shares or engage in any sale-leaseback, synthetic lease or similar transaction, provided, that the foregoing shall not prohibit (i) the sale of Inventory or obsolete or unnecessary Equipment in the ordinary course of its business, (ii) the sale or transfer, at fair market value, of raw materials, inventory and finished goods from one Credit Party to another Credit Party, (iii) a sale or disposition of machinery or equipment, provided that the proceeds of sale of such machinery and equipment shall not in any consecutive 12 month period exceed an amount equal to 10% of Consolidated Assets, and (iv) the sale of shares by the Canadian Borrower which does not result in a Change of Control;
- (g) such Credit Party shall not change its name, chief executive office, corporate offices, warehouses or other material locations having Collateral in excess of \$50,000, or location of its records concerning the Collateral, or acquire, lease or use any real estate after the Closing Date where books and records or Collateral in excess of \$50,000 will be located without such Person, in each instance, giving thirty (30) days prior written notice thereof to Lender and taking all actions deemed necessary or appropriate by Lender to continuously protect and perfect Lender's Liens upon the Collateral;
- (h) such Credit Party shall not make or permit any Restricted Payment in any Fiscal Year, unless, the Payment Conditions have been satisfied; and
- (i) no part of such proceeds of the Loans will be used by any Credit Party to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock or to reduce or retire any indebtedness incurred for any such purpose. No Credit Party nor any of its Subsidiaries are engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying any Margin Stock.

SECTION 6 – SECURITY INTEREST

6.1 Grant of Security Interest

- (a) As collateral security for the prompt and complete payment and performance of the Obligations, each Borrower and each other Credit Party executing this Agreement hereby grants to Lender a security interest in, hypothec on and Lien upon all of its personal property and assets, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title, or interest,

including all of the following property in which it now has or at any time in the future may acquire any right, title or interest: all Accounts; all bank and deposit accounts and all funds on deposit therein; all cash and cash equivalents; all commodity contracts (including all Commodity Contracts (as such term is defined in the UCC)); all investments, Shares and Investment Property; all Inventory and Equipment; all Goods; all Commercial Tort Claims (as such term is defined in the UCC), all Chattel Paper, Documents and Instruments; all Books and Records; all Intangibles; and to the extent not otherwise included, all Proceeds and products of all and any of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing, but excluding in all events Hazardous Waste (all of the foregoing, together with any other collateral pledged to Lender or in respect of which Lender may acquire any Lien pursuant to each other Loan Document, collectively, the "**Collateral**").

- (b) The security in the Collateral shall not extend or apply to consumer goods.
- (c) With respect to the US Borrower, the security in the Collateral shall not extend to consumer goods or Excluded Property as defined in the U.S. Security Agreement.
- (d) The security in the Collateral shall not extend or apply to the last day of the term of any lease or sublease or any agreement for a lease or sublease, now held or hereafter acquired by the Borrowers in respect of real property, but the Borrowers shall stand possessed of any such last day upon trust to assign and dispose of it as the Lender may direct.
- (e) Nothing in this Section shall constitute an assignment or attempted assignment of any license, permit, contract or other agreement which by its provisions or by applicable law is not assignable, which would result in the termination of or a breach under such contract, or which requires the consent of a third party to its assignment unless such consent has been obtained. With respect to any contract which the Lender reasonably determines to be material, the applicable Borrower shall promptly, upon written request by the Lender, attempt to obtain the consent of any necessary third party to its assignment under this Agreement. Upon such consent being obtained or waived, this Section shall apply to the applicable contract without the necessity of any further assurance to effect such assignment. Unless and until such consent to assignment is obtained, such Borrower shall hold all benefit to be derived from such contract in trust for the Lender as additional security for payment of the Obligations and shall deliver up all such benefit to the Lender promptly upon demand by the Lender.
- (f) Notwithstanding any other provisions of this Agreement, the security granted hereunder with respect to trademarks constitutes a security interest in, and charge, hypothecation and pledge of such collateral but does not constitute an assignment of such collateral to the Lender and, notwithstanding the generality of the foregoing, the collateral shall not include any intent-to-use trademark application prior to the filing of a "Statement of Use" or "Amendment to Allege Use" with respect thereto, to the extent, if any, that, and solely during the period, if any, in which the grant of a security interest therein would impair the validity or enforceability of such intent-to-use trademark application under applicable law.
- (g) Each Borrower, Lender and each other Credit Party executing this Agreement agree that this Agreement creates, and is intended to create, valid and continuing Liens upon the Collateral in favour of Lender. Each Borrower and each other Credit Party executing this Agreement represents, warrants and promises to Lender that: (i) each Borrower and each other Credit Party granting a Lien in Collateral is the sole owner of, or otherwise has a valid property interest in, each item of the Collateral upon which it purports to grant a Lien pursuant to the Loan Documents, and has good and marketable title thereto free and clear

of any and all Liens of others, other than Permitted Encumbrances; (ii) the security interests, hypothecs and Liens granted pursuant to this Agreement and the Loan Documents, upon completion of the filings and other actions listed on Disclosure Schedule (6.1) (which, in the case of all filings, registrations, publications and other documents referred to in said Disclosure Schedule, have been delivered to Lender in duly executed form, where applicable) will constitute valid perfected security interests and Liens in all Collateral in which a security interest may be perfected by filing or taking such other actions pursuant to the PPSA or the UCC as applicable in favour of Lender as security for the prompt and complete payment and performance of the Obligations, enforceable in accordance with the terms hereof against any and all creditors of and purchasers from any Credit Party (other than purchasers of Inventory in the ordinary course of business) and such security interests and Liens are prior to all other Liens on the Collateral in existence on the date hereof except for Permitted Encumbrances which have priority by operation of law or which are permitted to be prior pursuant to the terms of this Agreement and the other Loan Documents; and (iii) no effective security agreement, financing statement, deed of hypothec, equivalent security or Lien covering, charging or hypothecating all or any part of the Collateral is or will be on file or of record in any public office, except those relating to Permitted Encumbrances. Each Borrower and each other Credit Party executing this Agreement promise to defend the right, title and interest of Lender in and to the Collateral against the claims and demands of all Persons whomsoever (other than Persons holding Permitted Encumbrances on such Collateral that have priority over the Lender's Lien), and each shall take such actions, including: (x) upon Lender's request, the prompt delivery of all original Instruments, Chattel Paper and certificated Shares owned by each Borrower and each other Credit Party granting a Lien on Collateral to Lender; (y) notification of Lender's interest in Collateral at Lender's request; and (z) the institution of Litigation against third parties as shall be reasonable and prudent in order to protect and preserve each Credit Party's and Lender's respective and several interests in the Collateral. Upon Lender's request, each Borrower (and any other Credit Party granting a Lien on Collateral) shall mark its Books and Records pertaining to the Collateral to evidence the Loan Documents and the Liens granted under the Loan Documents. Upon Lender's request, all Chattel Paper shall be marked with the following legend: "This writing and the obligations evidenced or secured hereby are subject to the security interest of Royal Bank of Canada".

6.2 Lender's Rights

- (a) (i) upon Lender's request, Borrower shall cooperate with the Lender to (or subsequent to an Event of Default Lender may at any time in Lender's own name or in the name of either Borrower), communicate with Account Debtors, parties to Contracts, and obligors in respect of Instruments, Chattel Paper or other Collateral to verify to Lender's satisfaction, the existence, amount and terms of any such Accounts, Contracts, Instruments or Chattel Paper or other Collateral; and (ii) Lender may subsequent to an Event of Default, notify Account Debtors, parties to Contracts, and obligors in respect of Chattel Paper, Instruments, or other Collateral that the Collateral has been assigned to or is subject to Liens in favour of Lender and that payments shall be made directly to Lender. Upon the request of Lender, each Borrower shall so notify such Account Debtors, parties to Contracts, and obligors in respect of Instruments, Chattel Paper or other Collateral. Upon an Event of Default, each Borrower hereby constitutes Lender or Lender's designee as such Borrower's legal attorney, agent and mandatary with power to endorse such Borrower's name upon any notes, acceptance drafts, money orders or other evidences of payment or Collateral.
- (b) Each Borrower shall remain liable under each Contract, Instrument and License to observe and perform all the conditions and obligations to be observed and performed by it thereunder, and Lender shall have no obligation or liability whatsoever to any Person under

any Contract, Instrument or License (between any Borrower or any other Credit Party and any Person other than Lender) by reason of or arising out of the execution, delivery or performance of this Agreement or other Loan Documents and Lender shall not be required or obligated in any manner: (i) to perform or fulfill any of the obligations of any Borrower or the other Credit Parties; (ii) to make any payment or inquiry; or (iii) to take any action of any kind to collect, compromise or enforce any performance or the payment of any amounts which may have been assigned to it and/or which is the object of any Liens in its favour or to which it may be entitled at any time or times under or pursuant to any Contract, Instrument or License.

- (c) Each Borrower and each other Credit Party shall, with respect to each owned, leased, or controlled real property, during normal business hours and upon reasonable advance notice (unless a Default shall have occurred and be continuing, in which event no notice shall be required and Lender shall have access at any and all times subject to any limitations imposed upon the Borrower by any landlord of such real property) and without disruption to ordinary business operations: (i) provide access to such property to Lender and any of its officers, employees and agents, as frequently as Lender determines to be appropriate; (ii) permit Lender and any of its officers, employees and agents to inspect, audit and make extracts and copies (or take originals if reasonably necessary) from all of Borrowers' and such Credit Party's Books and Records; and (iii) permit Lender to inspect, review, verify, evaluate and make physical verifications and appraisals of the Inventory and other Collateral in any manner and through any medium that Lender considers advisable (a "**Field Examination**"), and Borrowers and such Credit Party agree to render to Lender, at Borrowers' and such Credit Party's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. Without limiting the generality of the foregoing, Lender shall be entitled to conduct one (1) Field Examination and one (1) inventory appraisal per year, provided that, (A) if at any time a Net Borrowing Availability has been less than \$6,250,000 for five (5) consecutive Business Days during such 12-month period, one (1) additional Field Examination and one (1) additional inventory appraisal will be permitted in such 12-month period, and (B) if an Event of Default has occurred and is continuing, the Lender may do any of the foregoing at any time and as many times in any year during normal business hours and without advance notice, including, without limitation, additional Field Examinations and Inventory appraisals. The Credit Parties shall be responsible for the reasonable, documented costs and out of pocket expenses of all such visits, Field Examinations, inventory appraisals and audits, including without limitation, the Field Examination Fees.
- (d) After the occurrence and during the continuance of a Default, Borrower, at its own expense, shall use reasonable commercial efforts to cause its auditors or any appraiser selected by Lender to deliver to Lender the results of any physical verifications of all or any portion of the Inventory made or observed by such auditors or appraisers when and if such verification is conducted. Lender shall be permitted to observe and consult with Borrower's accountants or appraisers in the performance of these tasks.

6.3 Grant of License to Use Intellectual Property Collateral

Each Borrower and each other Credit Party executing this Agreement hereby grants to Lender an irrevocable, non-exclusive license (exercisable upon the occurrence and during the continuance of an Event of Default without payment of royalty or other compensation to such Borrower or such Credit Party) to use, transfer, license or sublicense any Intellectual Property now owned, licensed to, or hereafter acquired by such Borrower or such Credit Party, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof and represents, promises and agrees

that any such license or sublicense is not and will not be in conflict with the contractual or commercial rights of any third Person; provided, that such license will terminate on the Termination Date.

SECTION 7 – EVENTS OF DEFAULT, RIGHTS AND REMEDIES

7.1 Events of Default

The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an “Event of Default” hereunder which shall be deemed to be continuing unless and until waived in writing by Lender in accordance with Section 8.3:

- (a) The Borrower or any other Credit Party shall fail to pay (i) when due and as required to be paid herein, any amount of principal of any Loan, or (ii) within five (5) Business Days after the same becomes due and payable, any interest on any Loan or any fee due hereunder, or any other amount payable hereunder or with respect to any other Loan Document; or
- (b) (i) any default occurs in the observance or performance of any of the covenants or agreements contained in any of Sections 3.16, 3.17, 3.18, 4.1, 4.2, 5.1 or 5.2 of this Agreement, or (ii) any default occurs in the observance or performance of any of the other covenants or agreements contained in any other Section of this Agreement or any other Loan Document to which any Credit Party and Lender are party (including in respect of any Bank Products) and such default shall continue for thirty (30) days or more after the earlier to occur of: (i) notice of default from the Lender to the Borrowers of the occurrence, or (ii) the date any Borrower becomes aware of such default; or
- (c) an event of default occurs in respect of the RBC Lease Facility or the Convertible Debentures;
- (d) (A) any Material Contract (excluding the RBC Lease Facility) terminates (other than, in each case, pursuant to its terms), or otherwise ceases to be legal, valid, binding and enforceable, (B) if a Credit Party breaches a Material Contract and such breach is not cured within any applicable period of grace unless such breach is subject to a dispute and the applicable Credit Party has accrued sufficient reserves in respect thereto in accordance with GAAP, or (C) an event of default shall occur under any Contractual Obligation of Borrower or any other Credit Party (other than this Agreement, the other Loan Documents and the RBC Lease Facility), and such event of default under this clause (C) either: (i) involves the failure to make any payment (whether or not such payment is blocked pursuant to the terms of an intercreditor agreement or otherwise), whether of principal, interest or otherwise, and whether due by scheduled maturity, required prepayment, acceleration, demand or otherwise, in respect of any Indebtedness (other than the Obligations) of such Person in an aggregate amount exceeding the Minimum Actionable Amount or which results in the acceleration of any debt exceeding the Minimum Actionable Amount; or (ii) causes such Indebtedness, or a portion thereof, in an aggregate amount exceeding the Minimum Actionable Amount to become due prior to its stated maturity or prior to its regularly scheduled date of payment; or
- (e) any representation or warranty in this Agreement or any other Loan Document is untrue or incorrect in any material respect (or, in the case of any such representation or warranty that is qualified as to materially or Material Adverse Effect, untrue or incorrect in any respect) where made or deemed made; or
- (f) there shall be commenced against any Borrower or any other Credit Party any Litigation seeking or effecting any seizure (whether in execution or otherwise), attachment,

execution, distraint or similar process against all or any substantial part of its assets which remain unreleased or undismissed for thirty (30) consecutive days, unless within such thirty (30) days, any seizure or taking possession of any property of such Credit Party shall have occurred; or any creditor (other than Lender) takes possession of all or any substantial part of the assets of any Borrower or any other Credit Party; or any creditor (other than Lender) enforces or gives notice of its intention to enforce or gives prior notice with respect to the exercise of any of its hypothecary or other rights under any Liens granted to it by or over any assets of either Borrower or any other Credit Party which enforcement or exercise of rights would reasonably be expected to result in a Material Adverse Effect; or any custodian, receiver, interim receiver, liquidator, assignee, trustee, monitor, sequestrator or similar official is appointed in respect of either Borrower or any other Credit Party or takes possession of all or any substantial part of the assets of any Borrower or any other Credit Party or either Borrower or any other Credit Party commits an "act of bankruptcy" (as defined under the relevant provisions of the BIA), becomes insolvent or shall have concealed, removed or permitted to be concealed or removed, any part of its property with intent to hinder, delay or defraud any of its creditors or make or suffer a transfer of any of its property or the incurring of an obligation which may be fraudulent, reviewable or the object of any proceedings under any applicable Federal, provincial, state or foreign bankruptcy, insolvency, receivership legislation, creditor protection legislation or other similar laws; or

- (g) a petition, proposal, notice of intention to file a proposal, case or proceeding shall have been commenced involuntarily against any Borrower or any other Credit Party in a court having competent jurisdiction seeking a declaration, judgment, decree, order or other relief: (i) under the BIA, CCAA or any other applicable federal, provincial, state or foreign bankruptcy, insolvency, receivership, or other law providing for suspension of operations or reorganization of debts or relief of debtors, and seeking either (x) the appointment of a custodian, receiver, interim receiver, liquidator, assignee, trustee, monitor or sequestrator (or similar official) for such Person or of any substantial part of its properties, or (y) the reorganization or winding up or liquidation of the affairs of any such Person, and such proposal, case or proceeding shall remain undismissed or unstayed for sixty (60) consecutive days or such court shall enter a declaration, judgment, decree or order granting the relief sought in such case or proceeding; or (ii) invalidating or denying any Person's right, power, or competence to enter into or perform any of its obligations under any Loan Document or invalidating or denying the validity or enforceability of this Agreement or any other Loan Document or any action taken hereunder or thereunder; or
- (h) any Borrower or any other Credit Party shall: (i) commence any petition, proposal, notice of intention to file a proposal, case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, suspension of operations, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it or seeking appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for it or any substantial part of its properties; (ii) make a general assignment for the benefit of creditors; (iii) consent to or take any action in furtherance of, or, indicating its consent to, approval of, or acquiescence in, any of the acts set forth in paragraphs (e) or (f) of this Section 7.1 or clauses (i) or (ii) of this paragraph (g); or (iv) shall admit in writing its inability to, or shall be generally unable to, pay its debts as such debts become due; or
- (i) a final judgment or judgments for the payment of money in excess of the Minimum Actionable Amount in the aggregate shall be rendered against any Borrower or any other Credit Party, unless the same shall be: (i) fully covered by insurance and the issuer(s) of the applicable insurance policies shall have acknowledged full coverage in writing within fifteen (15) days of judgment; or (ii) vacated, stayed, bonded, paid or discharged within a

period of fifteen (15) days from the date of such judgment, unless within such fifteen (15) days, any seizure or taking possession of any property of such Credit Party shall have occurred; or

- (j) any other event shall have occurred which has had or could reasonably be expected to have a Material Adverse Effect; or
- (k) any material provision of any Loan Document shall for any reason cease to be valid, binding and enforceable in accordance with its terms, or any Lien granted, or intended by the Loan Documents to be granted, to Lender shall cease to be a valid and perfected Lien having the first priority (or a lesser priority if expressly permitted in the Loan Documents) in any of the Collateral (or any Credit Party shall so assert any of the foregoing);
- (l) a Change of Control shall have occurred; or
- (m) a Pension Event or an ERISA Event shall have occurred that, alone or together with any other Pension Event or ERISA Events that have occurred, in the opinion of Lender, could give rise to a Material Adverse Effect or could result in any Lien or any liability on the part of Lender in either case in an aggregate amount exceeding the Minimum Actionable Amount.

7.2 Remedies

- (a) If any Default shall have occurred and be continuing, then Lender may terminate or suspend its obligation to make further Revolving Credit Advances and to incur additional Letter of Credit or other Obligations. In addition, if any Event of Default shall have occurred and be continuing, Lender may, without notice, take any one or more of the following actions: (i) declare all or any portion of the Obligations to be forthwith due and payable, including contingent liabilities with respect to Letter of Credit Obligations, whereupon such Obligations shall become and be due and payable; (ii) require that all Letter of Credit Obligations be fully cash collateralized pursuant to Schedule C; or (iii) exercise any rights and remedies provided to Lender under the Loan Documents or at law or equity, including all remedies provided under the PPSA or the UCC; provided, that upon the occurrence of any Event of Default specified in Sections 7.1(f), 7.1(g) or 7.1(h), the Obligations shall become immediately due and payable (and any obligation of Lender to make further Loans, if not previously terminated, shall immediately be terminated) without declaration, notice or demand by Lender.
- (b) Without limiting the generality of the foregoing, each Borrower and each other Credit Party executing this Agreement expressly agrees that upon the occurrence of any Event of Default, Lender may collect, receive, assemble, process, appropriate and realize upon the Collateral, or any part thereof, and may forthwith sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange or at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Lender shall have the right upon any such public sale, to the extent permitted by law, to purchase for the benefit of Lender the whole or any part of said Collateral so sold, which upon consummation of such purchase will be free of any right of equity of redemption, which right the Borrowers and each other Credit Party executing this Agreement hereby releases. Such sales may be adjourned, or continued from time to time with or without notice. Lender shall have the right to conduct such sales on any Credit Party's premises or elsewhere and shall have the right to use any Credit

Party's premises without rent or other charge for such sales or other action with respect to the Collateral for such time as Lender deems necessary or advisable.

- (c) Upon the occurrence and during the continuance of an Event of Default and at Lender's request, each Borrower and each other Credit Party executing this Agreement further agrees, to assemble the Collateral and make it available to Lender at places which Lender shall reasonably select, whether at its premises or elsewhere. Until Lender is able to effect a sale, lease, or other disposition of the Collateral, Lender shall have the right to complete, assemble, use or operate the Collateral or any part thereof, to the extent that Lender deems appropriate, for the purpose of preserving such Collateral or its value or for any other purpose. Lender shall have no obligation to any Credit Party to maintain or preserve the rights of any Credit Party as against third parties with respect to any Collateral while such Collateral is in the possession of Lender. Lender may, if it so elects, seek the appointment of a receiver or receiver manager to take possession of any Collateral and to enforce any of Lender's remedies with respect thereto without prior notice or hearing. To the maximum extent permitted by applicable law, each Borrower and each other Credit Party executing this Agreement waives all claims, damages, and demands against Lender, its Affiliates, agents, and the officers and employees of any of them arising out of the repossession, retention or sale of any Collateral except such as are determined in a final judgment by a court of competent jurisdiction to have arisen solely out of the gross negligence or wilful misconduct of such Person. Each Borrower and each other Credit Party executing this Agreement agrees that ten (10) days prior notice by Lender to such Credit Party of the time and place of any public sale or of the time after which a private sale may take place is reasonable notification of such matters. Each Borrower and each other Credit Party shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which Lender is entitled.
- (d) Lender's rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies which Lender may have under any Loan Document or at law or in equity. Recourse to the Collateral shall not be required. All provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited, to the extent necessary, so that they do not render this Agreement invalid or unenforceable, in whole or in part.

7.3 Waivers by Credit Parties

Except as otherwise provided for in this Agreement and to the fullest extent permitted by applicable law, each of Borrower and each other Credit Party executing this Agreement waives: (a) presentment, demand and protest, and notice of presentment, dishonour, intent to accelerate, acceleration, protest, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any or all Loan Documents, commercial paper, Accounts, Contracts, Documents, Instruments, Chattel Paper and guarantees at any time held by Lender on which such Credit Party may in any way be liable, and hereby ratifies and confirms whatever Lender may do in this regard; (b) all rights to notice and a hearing prior to Lender's taking possession or control of, or to Lender's replevy, attachment or levy upon, any Collateral or any bond or security which might be required by any court prior to allowing Lender to exercise any of its remedies; and (c) the benefit of all valuation, appraisal and exemption laws. Each of Borrower and each other Credit Party executing this Agreement acknowledges that it has been advised by counsel of its choices and decisions with respect to this Agreement, the other Loan Documents and the transactions evidenced hereby and thereby and any rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not apply to the construction or interpretation of this Agreement.

7.4 Proceeds

The Proceeds of any sale, disposition or other realization upon any Collateral shall be applied by Lender upon receipt to the Obligations in such order as Lender may deem advisable in its sole discretion (including the cash collateralization of any Letter of Credit Obligations) and after the indefeasible payment and satisfaction in full in cash of all of the Obligations, and after the payment by Lender of any other amount required by any provision of law, the surplus, if any, shall be paid to Borrowers or their representatives or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

SECTION 8 – MISCELLANEOUS

8.1 Complete Agreement; Modification of Agreement

This Agreement and the other Loan Documents constitute the complete agreement between the parties with respect to the subject matter hereof and thereof, supersede all prior agreements, commitments, understandings or inducements (oral or written, expressed or implied). No Loan Document may be modified, altered or amended except by a written agreement signed by Lender and each other Credit Party that is a party to such Loan Document. Each Borrower and each other Credit Party executing this Agreement or any other Loan Document shall have all duties and obligations under this Agreement and such other Loan Documents from the date of its execution and delivery, regardless of whether the initial Loan has been funded at that time.

8.2 Expenses

Each Borrower jointly and severally agrees to pay or reimburse Lender for all costs and expenses (including the reasonable fees and expenses of all counsel, advisors, consultants (including environmental and management consultants), field examiners, appraisers and auditors retained in connection therewith), incurred in connection with: (a) the preparation, negotiation, execution, delivery, performance and enforcement of the Loan Documents and the preservation of any rights thereunder; (b) collection, including deficiency collections; (c) the forwarding to any Borrower or any other Person on behalf of any Borrower by Lender of the proceeds of any Loan; (d) any amendment, waiver or other modification with respect to any Loan Document or advice in connection with the administration of the Loans or the rights thereunder; (e) any litigation, dispute, suit, proceeding or action (whether instituted by or between any combination of Lender, a Borrower or any other Person), and an appeal or review thereof, in any way relating to the Collateral, any Loan Document, or any action taken or any other agreements to be executed or delivered in connection therewith, whether as a party, witness or otherwise; and (f) any effort to: (i) monitor the Loans (ii) evaluate, observe or assess any Borrower or any other Credit Party or the affairs of such Person; and (iii) verify, protect, evaluate, assess, appraise, collect, sell, liquidate or otherwise dispose of the Collateral. Without limiting the foregoing, each Borrower will jointly and severally reimburse Lender for the costs (including reasonable out of pocket expenses plus applicable taxes) related to the Lender's due diligence including Field Examinations and the verification, evaluation, assessment and approval of Collateral.

8.3 No Waiver

Neither Lender's failure, at any time, to require strict performance by any Borrower or any other Credit Party of any provision of any Loan Document, nor Lender's failure to exercise, nor any delay in exercising, any right, power or privilege hereunder, shall operate as a waiver thereof or waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or future exercise thereof or the exercise of any other right, power or privilege. Any suspension or waiver of a Default or other provision under the Loan Documents shall not suspend, waive or affect any other Default or other provision under any Loan Document, and shall not be construed as a bar to any right or remedy which Lender would otherwise have had on any future occasion. None of the undertakings, indemnities, agreements, warranties, covenants and representations of any Borrower or any other Credit Party to Lender contained in any Loan Document and

no Default by a Borrower or any other Credit Party under any Loan Document shall be deemed to have been suspended or waived by Lender, unless such waiver or suspension is by an instrument in writing signed by an officer or other authorized employee of Lender and directed to any Borrower specifying such suspension or waiver (and then such waiver shall be effective only to the extent therein expressly set forth), and Lender shall not, by any act (other than execution of a formal written waiver), delay, omission or otherwise, be deemed to have waived any of its rights or remedies hereunder.

8.4 Severability; Section Titles

Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of any Loan Document shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of such Loan Document. Except as otherwise expressly provided for in the Loan Documents, no termination or cancellation (regardless of cause or procedure) of any financing arrangement under the Loan Documents shall in any way affect or impair the Obligations, duties, covenants, representations and warranties, indemnities, and liabilities of any Borrower or any other Credit Party or the rights of Lender relating to any unpaid Obligation (due or not due, liquidated, contingent or unliquidated), or any transaction or event occurring prior to such termination, or any transaction or event, the performance of which is not required until after the Commitment Termination Date, all of which shall not terminate or expire, but rather shall survive such termination or cancellation and shall continue in full force and effect until the Termination Date; provided, that all indemnity obligations of the Credit Parties under the Loan Documents shall survive the Termination Date. The Section titles contained in any Loan Document are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

8.5 Authorized Signature

Until Lender shall be notified in writing by a Borrower or any other Credit Party to the contrary, the signature upon any document or instrument delivered pursuant hereto and believed by Lender or any of Lender's officers, agents, or employees to be that of a Credit Party or of an officer of any Borrower or such other Credit Party shall bind such Borrower or such other Credit Party and be deemed to be the act of such Borrower or such other Credit Party affixed pursuant to and in accordance with resolutions duly adopted by such Borrower's or such other Credit Party's board of directors, and Lender shall be entitled to assume the authority of each signature and authority of the person whose signature it is or appears to be unless the person acting in reliance thereon shall have actual knowledge to the contrary.

8.6 Notices

Except as otherwise provided herein, whenever any notice, demand, request or other communication shall or may be given to or served upon any party by any other party, or whenever any party desires to give or serve upon any other party any communication with respect to this Agreement, each such communication shall be in writing and shall be deemed to have been validly served, given or delivered: (a) upon the earlier of actual receipt (or refusal thereof) and three (3) Business Days after deposit in the mail, registered or certified mail, return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by telecopy, e-mail or other similar facsimile or electronic transmission (with such telecopy, e-mail or facsimile promptly confirmed by delivery of a copy by personal delivery or mail as otherwise provided in this Section 8.6); (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when hand-delivered, all of which shall be addressed to the party to be notified and sent to the address or facsimile number indicated in Schedule B or to such other address (or facsimile number) as may be substituted by notice given as herein provided. Failure or delay in delivering copies of any such communication to any Person (other than a Borrower or Lender) designated in Schedule B to receive copies shall in no way adversely affect the effectiveness of such communication.

8.7 Counterparts

This Agreement may be executed in any number of counterparts and by facsimile or other electronic format (including pdf) and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. The words "execution", "execute", "executed", "signed", "signature" and words of like import in this Agreement or in or related to any document to be signed in connection with this Agreement and the transactions contemplated hereby, shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, in accordance with applicable law including, without limitation, as in provided Parts 2 and 3 of the *Personal Information Protection and Electronic Documents Act* (Canada), the *Electronic Commerce Act, 2000* (Ontario), the *Electronic Transactions Act* (British Columbia), the *Electronic Transactions Act* (Alberta), or any other similar laws based on the Uniform Electronic Commerce Act of the Uniform Law Conference of Canada. The parties may, in their discretion, require that any such documents and signatures executed electronically or delivered by fax or other electronic transmission be confirmed by a manually-signed original thereof; provided that the failure to request or deliver the same shall not limit the effectiveness of any document or signature executed electronically or delivered by fax or other electronic transmission.

8.8 Assignments

This Agreement shall be binding upon and inure to the benefit of Lender, the Credit Parties and their respective heirs, executors, administrators, other legal representatives, successors and assigns. Neither this Agreement nor any interest in this Agreement may be assigned by any Borrower or any other Credit Party without the prior written consent of Lender. Lender may assign or transfer or grant participations in its rights or obligations under this Agreement in whole or in part at any time without notice to or consent of the Credit Parties. Lender may disclose to potential or actual transferees or assignees or participants, any information regarding the Credit Parties as Lender considers necessary and the Credit Parties consent to such disclosure.

8.9 Time of the Essence

Time is of the essence for performance of the Obligations under the Loan Documents.

8.10 Governing Law

Except for Loan Documents expressed to be governed by the laws of another jurisdiction, the Loan Documents and the obligations arising under the Loan Documents shall be governed by, and construed and enforced in accordance with, the laws of the Province of Alberta applicable to contracts made and performed in such province, without regard to the principles thereof regarding conflicts of laws, and any applicable laws and the federal laws of Canada applicable therein.

8.11 Submission to Jurisdiction; Waiver of Jury Trial

- (a) Each Borrower and each other Credit Party executing this Agreement hereby consent and agree that the courts located in Alberta shall have exclusive jurisdiction to hear and determine any claims or disputes between a Borrower and such Credit Party and Lender pertaining to this Agreement or any of the other Loan Documents or to any matter arising out of or related to this Agreement or any of the other Loan Documents; that nothing in this Agreement shall be deemed or operate to preclude Lender from bringing suit or taking other legal action in any other jurisdiction to collect the Obligations, to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favour of Lender. Each Borrower and each other Credit Party executing this Agreement expressly submit and consent in advance to such jurisdiction in any

action or suit commenced in any such court, and such Borrower and such Credit Party hereby waive any objection which they may have based upon lack of personal jurisdiction, improper venue or forum non conveniens. Each Borrower and each other Credit Party executing this Agreement hereby waive personal service of the summons, complaint and other process issued in any such action or suit and agree that service of such summons, complaint and other process may be made by registered or certified mail addressed to such Borrower or such Credit Party at the address set forth in Schedule B of this Agreement and that service so made shall be deemed completed upon the earlier of such Borrower's or such Credit Party's actual receipt thereof (or refusal) or three (3) Business Days after deposit in the mail, proper postage prepaid.

- (b) THE PARTIES HERETO WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE BETWEEN LENDER, ANY BORROWER AND ANY CREDIT PARTY ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

8.12 Press Releases

Neither any Credit Party nor any of its Affiliates will in the future issue any press release or other public disclosure using the name of Royal Bank of Canada or its affiliates without at least two (2) Business Days' prior notice to Lender and without the prior written consent of Lender unless (and only to the extent that) such Credit Party or Affiliate is required to do so under law and then, in any event, such Credit Party or Affiliate will use reasonable commercial efforts to consult with Lender before issuing such press release or other public disclosure. Each Credit Party consents to the publication (in the ordinary course) by Lender or Lender's counsel of customary advertising material (including under league tables, tombstones and for advertising purposes) relating to the financing transactions contemplated by this Agreement using such Credit Party's name, product photographs, logos or trademarks. Such consent shall remain effective until revoked by such Credit Party in writing to Lender.

8.13 Reinstatement

This Agreement shall continue to be effective, or be reinstated, as the case may be, if at any time payment of all or any part of the Obligations is rescinded or must otherwise be returned or restored by Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Borrower or any other Credit Party, or otherwise, all as though such payments had not been made.

8.14 Illegality

- (a) In the event that Lender determines that, in consequence of any change in any Requirement of Law or any policy applicable to it that it is illegal, unlawful or prohibited for it to make or continue to make any Loans, Letter of Credit Obligations, Bank Products, the RBC Lease Facility or any other Obligations hereunder, it shall have the right to immediately terminate such Loans, Letter of Credit Obligations, Bank Products, the RBC Lease Facility or other Obligations as it shall determine necessary or appropriate and to terminate any commitment to make or continue to make such Loans, Letters of Credit Obligations, Bank Products, the RBC Lease Facility or other Obligations and/or to terminate its commitments hereunder and any of the Loan Documents as it shall determine necessary or appropriate.
- (b) If Lender determines that it is unlawful to make, maintain or fund any Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA, as applicable, each Borrower shall, upon its receipt of notice of such fact and demand from Lender,

prepay in full such Revolving Credit Advances then outstanding, together with interest accrued thereon, either on the last day of the Interest Period thereof, if Lender may lawfully continue to maintain such Revolving Credit Advances to such day, or immediately, if Lender may not lawfully continue to maintain such Revolving Credit Advances. No payment shall be due under Section 1.14 upon prepayment of Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA pursuant to or as a result of the circumstances described in the preceding sentence. If any Borrower is required to so prepay any Revolving Credit Advances based upon the Term SOFR Rate or Adjusted Term CORRA, as applicable, then concurrently with such prepayment, such Borrower shall borrow from Lender, in the amount of such repayment, Revolving Credit Advances based upon RBUSBR or RBP, as applicable.

8.15 Set Off and Survival

Without limitation to any other rights or remedies of Lender, Lender shall have the right at all times without notice to the Credit Parties (which notice is hereby waived to the maximum extent permitted by law) to set off or apply against any Obligations now and hereafter owing (whether matured or contingent) any deposits at any time held by, or other indebtedness at any time owing by, Lender or any of its Affiliates to or for the credit or account of any Credit Party. All indemnities hereunder or under the other Loan Documents shall survive any termination of the Loan Documents unless expressly released in writing.

8.16 Increased Costs

If, by reason of: (a) any adoption of, taking effect of, or change in any Requirement of Law (including any change by way of imposition or increase of statutory reserves or other reserve requirements) or the application, administration, implementation or interpretation thereof; or (b) the compliance with any rule, directive, guideline or request from any government authority or other Person exercising control over banks or financial institutions generally (whether or not having the force of law), including the (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, in each case regardless of the date enacted, adopted or issued:

- (i) Lender (or its applicable lending office) shall be subject to any Tax with respect to any Loan (including a Letter of Credit) or a change shall result in the basis of taxation of any payment to Lender (or its applicable lending office) with respect to its obligation to make or continue any Loan or issue Letters of Credit or participate in Letter of Credit Obligations; or
- (ii) any reserve (including any imposed by the board of governors or any other applicable Governmental Authority), special deposits, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, Lender (or its applicable lending office) shall be imposed or deemed applicable, or any other condition, affecting Lender's (or its applicable lending office's) obligation to make any Loans or issue Letters of Credit, shall be imposed on Lender (or its applicable lending office);

and as a result there shall be an increase in the cost to Lender (or its applicable lending office) of agreeing to make or making, funding or maintaining Loans, Letters of Credit or Letter of Credit Obligations (except to the extent already included in determination of the rate of interest), or there shall be a reduction in the amount received or receivable by Lender (or its applicable office), then Lender shall promptly notify the Borrowers of such event, and each Borrower jointly and severally agrees to, within five (5) Business Days following demand therefor, pay Lender the amount of such increased costs or reduced amounts.

In the event that Lender shall have determined that the adoption, effectiveness, or applicability after the Closing Date of any law, rule or regulation (or any provision thereof) regarding capital adequacy, or any change therein or in the interpretation or administration thereof by any any government authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Lender (or its applicable lending office) with any guideline, request or directive regarding capital adequacy (whether or not having the force of law) of any such governmental authority, central bank or comparable agency (provided that for purposes of this Agreement, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to have been adopted and become effective after the date hereof), has or would have the effect of reducing the rate of return on the capital of Lender or any corporation controlling Lender as a consequence of, or with reference to, of agreeing to make or making, funding or maintaining Loans, Letters of Credit or Letter of Credit Obligations (except to the extent already included in determination of the rate of interest) or of maintaining its obligation to make any such Loan or issue Letters of Credit to a level below that which Lender or such controlling corporation could have achieved but for such adoption, effectiveness, applicability, change or compliance (taking into consideration the policies of Lender or such controlling corporation with regard to capital adequacy), then Lender shall promptly notify the Borrowers of such event, and each Borrower jointly and severally agrees to, within five (5) Business Days following demand therefor, pay Lender such additional amount or amounts as will compensate Lender or such controlling corporation on an after-tax basis for such reduction.

If Lender determines that, because of circumstances described above or any other circumstances arising hereafter affecting such Lender the Applicable Margin will not adequately and fairly reflect the cost to Lender of funding Loans or incurring Letter of Credit Obligations or the cost to Lender of issuing Letters of Credit, then (A) Lender shall promptly notify the Borrowers of such event; and (B) Lender's obligation to fund Loans and issue Letters of Credit, shall be immediately suspended, until each condition giving rise to such suspension no longer exists.

Notwithstanding anything herein to the contrary, each Borrower shall only be required to compensate Lender in respect of any such increased costs or reduction in the amount received or receivable by Lender to the extent any Borrower has received a written request for such compensation within ninety (90) days after Lender has received actual notice of the occurrence of the relevant circumstance giving rise to such increased costs or reduction in the amount received or receivable by Lender.

8.17 Conflict

If any provision of this Agreement conflicts with and is incapable of being construed together with any other Loan Document, then the provisions of this Agreement shall prevail to the extent necessary to remove such conflict. If there is a representation, warranty, covenant, agreement or event of default contained in any Loan Document which is not contained herein, or vice versa, such additional provision shall not constitute a conflict.

SECTION 9 – SPECIAL PROVISIONS

9.1 Interest Act (Canada)

For the purposes of this Agreement, whenever interest or a fee to be paid hereunder is to be calculated on the basis of a year of three hundred and sixty (360) days, as in the case of all Revolving Credit Advances in U.S.\$ made based upon the Term SOFR Rate, or any other period of time that is less than a calendar year, the yearly rate of interest or the yearly fee to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which

the same is to be ascertained and divided by either three hundred and sixty (360) or such other period of time, as the case may be. Each Credit Party confirms that it fully understands and is able to calculate the rate of interest applicable to Loans under this Agreement based on the methodology for calculating per annum rates provided for in this Agreement. Each Credit Party hereby irrevocably agrees not to plead or assert, whether by way of defence or otherwise, in any proceeding relating to this Agreement or any Loan Documents, that the interest payable under this Agreement and the calculation thereof has not been adequately disclosed to such Credit Party as required pursuant to Section 4 of the *Interest Act* (Canada).

9.2 Excess Resulting from Exchange Rate Change

If at any time following one or more fluctuations in the exchange rate of the Canadian Dollar against the U.S. Dollar (a) the Obligations exceed any limitations hereunder or (b) any part of the Obligations exceeds any limit set forth herein for such Obligations, each Borrower shall within three (3) Business Days or, if an Event of Default has occurred and is continuing, immediately: (i) make the necessary payments or repayments to reduce such Obligations to an amount necessary to eliminate such excess; or (ii) maintain or cause to be maintained with Lender deposits in an amount equal to or greater than the amount of such excess, such deposits to be maintained in such form and upon such terms as are acceptable to Lender in its reasonable discretion. Without in any way limiting the foregoing provisions, Lender shall, weekly or more frequently in Lender's sole discretion, make the necessary exchange rate calculations (based upon the rate of exchange established by Lender as at noon on the date of determination) to determine whether any such excess exists on such date.

9.3 Judgment Currency

If for the purpose of obtaining judgment in any court it is necessary to convert an amount due hereunder in the currency in which it is due (the "**Original Currency**") into another currency (the "**Second Currency**"), the rate of exchange applied shall be that at which, in accordance with normal banking procedures, Lender could purchase in the Toronto foreign exchange market, the Original Currency with the Second Currency on the date two (2) Business Days preceding that on which judgment is given. Each Borrower agrees that its obligation in respect of any Original Currency due from it hereunder shall, notwithstanding any judgment or payment in such other currency, be discharged only to the extent that, on the Business Day following the date Lender receives payment of any sum so adjudged to be due hereunder in the Second Currency, Lender may, in accordance with normal banking procedures, purchase, in the Toronto foreign exchange market, the Original Currency with the amount of the Second Currency so paid; and if the amount of the Original Currency so purchased or could have been so purchased is less than the amount originally due in the Original Currency, each Borrower jointly and severally agrees as a separate obligation and notwithstanding any such payment or judgment to indemnify Lender against such loss. The term "rate of exchange" in this Section means the spot rate at which Lender, in accordance with normal practices, is able on the relevant date to purchase the Original Currency with the Second Currency, and includes any premium and costs of exchange payable in connection with such purchase.

9.4 USA Patriot Act

Lender hereby notifies each Credit Party that, pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), it is required to obtain, verify and record information that identifies the Credit Parties, which information includes the name and address of each of the parties hereto and other information that will allow Lender to identify all parties in accordance with said Act. The Credit Party shall promptly provide such information upon request by Lender.

9.5 Calculations

All references in the Loan Documents to Loans, Letters of Credit, Obligations, Borrowing Base components and other amounts shall be denominated in Canadian Dollars, unless expressly provided otherwise. The

Canadian Dollars equivalent of any amounts denominated or reported under a Loan Document in a currency other than Canadian Dollars shall be determined by Lender on a daily basis, based on its rate of exchange as determined on the date of determination. The Credit Parties shall report value and other Borrowing Base components to Lender in the currency invoiced by Borrowers or shown in Borrowers' financial records, and unless expressly provided otherwise, shall deliver Financial Statements and calculate financial covenants in Canadian Dollars. Notwithstanding anything herein to the contrary, if any Obligation is funded and expressly denominated in a currency other than Canadian Dollars, Borrowers shall repay such Obligation in such other currency.

9.6 Language

The parties hereto confirm that it is their wish that this Agreement and any other document executed in connection with the transactions contemplated herein be drawn up in the English language only (except if another language is required under any Applicable Law) and that all other documents contemplated thereunder or relating thereto, including notices, may also be drawn up in the English language only. Each party hereto hereby confirms that it was represented by legal counsel and has had the opportunity to negotiate the terms of this Agreement and any other Loan Documents, including the essential stipulations thereof, with the assistance of its legal counsel. *Les parties aux présentes confirment que c'est leur volonté que cette convention et les autres documents de crédit soient rédigés en langue anglaise seulement et que tous les documents, y compris tous avis, envisagés par cette convention et les autres documents peuvent être rédigés en langue anglaise seulement (sauf si une autre langue est requise en vertu d'une loi applicable). Chaque partie aux présentes confirme qu'elle a été représentée par des conseillers juridiques et a eu l'opportunité de négocier les termes de cette convention et des autres documents de crédit, y compris leurs stipulations essentielles, avec l'aide de ses conseillers juridiques.*

[Signature Pages Follow]

IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.

BORROWER:

DIRTT ENVIRONMENTAL SOLUTIONS LTD.

Per: _____

Name:

Title:

Per: _____

Name:

Title:

DIRTT ENVIRONMENTAL SOLUTIONS, INC.

Per: _____

Name:

Title:

Per: _____

Name:

Title:

LENDER:

ROYAL BANK OF CANADA

Per: _____

Name:

Title: Attorney in Fact

SCHEDULE A

DEFINITIONS

Capitalized terms used in this Agreement and the other Loan Documents shall have (unless otherwise provided elsewhere in this Agreement or in the other Loan Documents) the following respective meanings:

“Account Debtor” shall mean any Person who is or may become obligated with respect to, or on account of, an Account.

“Accounts” shall mean all “accounts,” as such term is defined in the PPSA or the UCC, as applicable, and includes any right of any Person to payment for goods sold or leased or for services rendered, whether or not it has been earned by performance, now owned or hereafter acquired by any Person, including: (i) all accounts receivable, other receivables, book debts and other forms of obligations whether arising out of goods sold or leased or services rendered or from any other transaction whatsoever (including any contract rights); (ii) all of such Person’s rights in, to and under all purchase orders or receipts for goods or services; (iii) all of such Person’s rights to any goods represented by any of the foregoing (including unpaid sellers’ rights of rescission, replevin, reclamation, stoppage in transit, repossession rights under any statute or law including those under Section 81.1 of the BIA, and rights to returned, claimed or repossessed goods); (iv) all monies due or to become due to such Person under all purchase orders and contracts for the sale or lease of goods or the performance of services or both by such Person or in connection with any other transaction (whether or not yet earned by performance on the part of such Person), including the right to receive the proceeds of said purchase orders and contracts; and (v) all collateral security and guarantees of any kind given by any other Person with respect to any of the foregoing.

“Adjusted EBITDA” means with respect to any Person for any period, the Net Income of such Person for such period plus, without duplication and to the extent reflected as a charge in the statement of income included in the financial statements of such Person:

- (a) all amounts deducted in the calculation thereof in respect of Depreciation Expense, and current and deferred taxes, net losses of Subsidiaries and any other losses incurred in respect of investments that are in each case accounted for on an equity basis;
- (b) Total Interest Expense;
- (c) all unrealized hedging losses; and
- (d) non-cash stock based compensation expenses (options, performance stock units, deferred stock units) and any extraordinary, non-recurring or unusual expenses or losses (including, whether or not otherwise includable as a separate item in such statement of income, losses on sales outside of the ordinary course of business or on sales of property of a Credit Party which is leased back to any Credit Party);

less, without duplication and to the extent reflected as a credit in such statement of net income:

- (e) any reduction of income taxes;
- (f) all unrealized hedging gains;
- (g) amounts included in the calculation thereof in respect of net profits of Subsidiaries and any other profits in respect of investments that are in each case accounted for on an equity basis; and
- (h) any extraordinary, non-recurring or unusual income or gains (including, whether or not otherwise includable as a separate item in such statement of income, gains on sales

outside of the ordinary course of business or on sales of property by a Credit Party that are leased back to any Credit Party).

“Adjusted Term CORRA” means, for purposes of any calculation, the rate per annum equal to (a) Term CORRA for such calculation plus (b) the Term CORRA Adjustment; provided that if Adjusted Term CORRA as so determined shall ever be less than zero, then Adjusted Term CORRA shall be deemed to zero.

“Adjusted Term SOFR” means, for purposes of any calculation, the rate per annum equal to (a) the Term SOFR Rate for such calculation plus (b) the Term SOFR Adjustment.

“Advance Rate” shall have the meaning assigned to it in Section 1.5.

“Affiliate” shall mean, with respect to a Person: (i) each other Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, twenty five percent (25%) or more of the Shares having ordinary voting power for the election of directors of such Person; (ii) each other Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person; or (iii) each of such Person’s directors, officers, managing members, partners, or trustees. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” shall mean this Agreement including all appendices, exhibits or schedules attached or otherwise identified thereto, restatements and modifications and supplements thereto, and any appendices, exhibits or schedules to any of the foregoing, each as in effect at the time such reference becomes operative; provided, that except as specifically set forth in this Agreement, any reference to the Disclosure Schedules to this Agreement shall be deemed a reference to the Disclosure Schedules as in effect on the Closing Date or in a written amendment thereto executed by Borrowers and Lender.

“Applicable Margin” shall mean, for the purposes of determining the applicable interest rate for the Revolving Credit Loans:

- (a) [***]% per annum in the case of RBP and RBUSBR based loans,
- (b) [***]% per annum in the case of Term CORRA Loans, and
- (c) [***]% per annum plus the Term SOFR Adjustment in the case of Term SOFR Loans.

“Appraisal Fees” shall have the meaning assigned to it in Schedule E.

“Authorized Officer” shall mean the president, chief financial officer, chief executive officer or such other officer or signatory of Borrower (as may be appointed by corporate resolution, in writing) as is acceptable to Lender.

“Bank Products” shall mean any ancillary services, facilities or obligations which Lender may in its sole discretion undertake in connection with any of the Credit Parties and includes any Foreign Exchange Facility described in Schedule H hereto.

“Bankruptcy Code” shall mean title 11 of the United States Code, 11 U.S.C. §§ 100. et seq., as in effect from time to time or at any time.

“BIA” shall mean the *Bankruptcy and Insolvency Act* (Canada), and any successor act or statute, as in effect from time to time or at any time.

“Blocked Accounts” shall have the meaning assigned to it in Schedule D.

“Blocked Accounts Agreement” shall have the meaning assigned to it in Schedule D.

"Books and Records" shall mean all books, records, board minutes, contracts, licenses, insurance policies, environmental audits, business plans, files, computer files, computer discs and other data and software storage and media devices, accounting books and records, financial statements (actual and pro forma), filings with Governmental Authorities and any and all records and instruments relating to the Collateral or any Borrower's or any other Credit Party's business.

"Borrower" shall mean the Persons identified as such in the preamble of this Agreement and includes their successors.

"Borrowing Availability" shall mean, at any time, the lesser of: (i) the Maximum Amount; and (ii) the Borrowing Base.

"Borrowing Base" shall mean at any time an amount equal to the sum at such time of: (i) eighty-five percent (85%) of Eligible Accounts (other than Eligible Investment Grade or Insured Accounts), ninety percent (90%) of Eligible Investment Grade or Insured Accounts, plus (ii) the lesser of: (a) eighty-five percent (85%) of the net orderly liquidation value (as determined by an appraisal firm acceptable to Lender) of Eligible Inventory; and (b) seventy-five percent (75%) of the book value of Eligible Inventory (recorded at the lower of cost and net realizable value) and, less (iii) reserves, established by Lender from time to time in its good faith discretion, including the reserves set forth in Section 1.13.

"Borrowing Base Certificate" shall mean a certificate in the form of Exhibit B.

"Business Day" means a day on which chartered banks are open for over-the-counter business in Toronto, Ontario, and excludes Saturday, Sunday and any other day which is a statutory holiday in Toronto, Ontario, provided that, when used in connection with Term SOFR Loans or any other calculation or determination involving SOFR, the term "Business Day" means any day that is only a U.S. Government Securities Business Day.

"Canadian Anti-Terrorism Laws" shall mean all laws of Canada, or any province, territory or political subdivision thereof relating to the prevention of money laundering and terrorist financing including without limitation the *Criminal Code (Canada)*, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, the *United Nations Suppression of Terrorism Regulations and the Anti-terrorism Act (Canada)* and all regulations and orders made thereunder.

"Canadian Available Tenor" shall mean, as of any date of determination and with respect to the then-current Canadian Benchmark, as applicable, (x) if such Canadian Benchmark is a term rate, any tenor for such Canadian Benchmark (or component thereof) that is or may be used for determining the length of a Interest Period pursuant to this Agreement or (y) otherwise, any payment period for interest calculated with reference to such Canadian Benchmark (or component thereof) that is or may be used for determining any frequency of making payments of interest calculated with reference to such Canadian Benchmark, in each case, as of such date, and not including, for the avoidance of doubt, any tenor for such Canadian Benchmark that is then-removed from the definition of "Interest Period" pursuant to Section 1.17(d).

"Canadian Benchmark" means, initially, the Term CORRA Reference Rate; provided that if a Canadian Benchmark Transition Event has occurred with respect to the Term CORRA Reference Rate, or the then-current Canadian Benchmark, then "Canadian Benchmark" means the applicable Canadian Benchmark Replacement to the extent that such Canadian Benchmark Replacement has replaced such prior benchmark rate pursuant to Section 1.17(a).

"Canadian Benchmark Replacement" means, with respect to any Canadian Benchmark Transition Event,

- (a) where a Canadian Benchmark Transition Event has occurred with respect to Term CORRA Reference Rate, Daily Compounded CORRA; and;
- (b) where a Canadian Benchmark Transition Event has occurred with respect to a Canadian Benchmark other than the Term CORRA Reference Rate, the sum of: (i) the alternate benchmark rate that has been selected by Lender and the Borrower giving due consideration to (A) any

selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Canadian Governmental Body or (B) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement to the then-current Canadian Benchmark for Dollar-denominated syndicated credit facilities and (ii) the related Canadian Benchmark Replacement Adjustment.

If the Canadian Benchmark Replacement as determined pursuant to clause (a) or (b) above would be less than zero, the Canadian Benchmark Replacement will be deemed to be zero for the purposes of this Agreement and the other Loan Documents.

“Canadian Benchmark Replacement Adjustment” means, with respect to any replacement of the then-current Canadian Benchmark with an Unadjusted Canadian Benchmark Replacement, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Lender and the Borrower giving due consideration to (a) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Canadian Benchmark with the applicable Unadjusted Canadian Benchmark Replacement by the Relevant Canadian Governmental Body or (b) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Canadian Benchmark with the applicable Unadjusted Canadian Benchmark Replacement for Dollar-denominated syndicated credit facilities at such time.

“Canadian Benchmark Replacement Date” means a date and time determined by the Lender, which date shall be no later than the earliest to occur of the following events with respect to the then-current Canadian Benchmark:

- (a) in the case of clause (a) or (b) of the definition of “Canadian Benchmark Transition Event,” the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of such Canadian Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Canadian Available Tenors of such Canadian Benchmark (or such component thereof); or
- (b) in the case of clause (c) of the definition of “Canadian Benchmark Transition Event,” the first date on which such Canadian Benchmark (or the published component used in the calculation thereof) has been determined and announced by the regulatory supervisor for the administrator of such Canadian Benchmark (or such component thereof) to be non-representative; provided that such non-representativeness will be determined by reference to the most recent statement or publication referenced in such clause (c) and even if any of such Canadian Benchmark (or such component thereof) continues to be provided on such date.

For the avoidance of doubt, the “Canadian Benchmark Replacement Date” will be deemed to have occurred in the case of clause (a) or (b) with respect to any Canadian Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Canadian Available Tenors of such Canadian Benchmark (or the published component used in the calculation thereof).

“Canadian Benchmark Transition Event” means the occurrence of one or more of the following events with respect to the then-current Canadian Benchmark:

- (a) a public statement or publication of information by or on behalf of the administrator of such Canadian Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Canadian Available Tenors of such Canadian Benchmark (or such component thereof), permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Canadian Available Tenor of such Canadian Benchmark (or such component thereof);
- (b) a public statement or publication of information by the regulatory supervisor for the administrator of such Canadian Benchmark (or the published component used in the calculation thereof), the Bank

of Canada, an insolvency official with jurisdiction over the administrator for such Canadian Benchmark (or such component), a resolution authority with jurisdiction over the administrator for such Canadian Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for such Canadian Benchmark (or such component), which states that the administrator of such Canadian Benchmark (or such component) has ceased or will cease to provide all Canadian Available Tenors of such Canadian Benchmark (or such component thereof) permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Canadian Available Tenor of such Canadian Benchmark (or such component thereof); or

- (c) a public statement or publication of information by the regulatory supervisor for the administrator of such Canadian Benchmark (or the published component used in the calculation thereof) announcing that all Canadian Available Tenors of such Canadian Benchmark (or such component thereof) are not, or as of a specified future date will not be, representative.

For the avoidance of doubt, a “Canadian Benchmark Transition Event” will be deemed to have occurred with respect to any Canadian Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Canadian Available Tenor of such Canadian Benchmark (or the published component used in the calculation thereof).

“**Canadian Benchmark Unavailability Period**” means, the period (if any) (a) beginning at the time that a Canadian Benchmark Replacement Date has occurred if, at such time, no Canadian Benchmark Replacement has replaced the then-current Canadian Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 1.17 and (b) ending at the time that a Canadian Benchmark Replacement has replaced the then-current Canadian Benchmark for all purposes hereunder and under any Loan Document in accordance with Section 1.17.

“**Canadian Borrower**” DIRT Environmental Solutions Ltd., a corporation incorporated under the laws of the Province of Alberta.

“**Canadian Conforming Changes**” means, with respect to the use or administration of a Canadian Benchmark or the use, administration, adoption or implementation of any Canadian Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “RBP,” the definition of “Business Day,” the definition of “Interest Period” or any similar or analogous definition (or the addition of a concept of “interest period”), timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, the applicability of breakage provisions and other technical, administrative or operational matters) that the Lender decides may be appropriate to reflect the adoption and implementation of any such rate or to permit the use and administration thereof by the Lender in a manner substantially consistent with market practice (or, if the Lender decides that adoption of any portion of such market practice is not administratively feasible or if the Lender determines that no market practice for the administration of any such rate exists, in such other manner of administration as the Lender decides is reasonably necessary in connection with the administration of this Agreement and the other Loan Documents).

“**Canadian Dollars**”, “**CAD\$**” or “**\$**” shall mean the lawful currency of Canada.

“**Capital Expenditures**” means all payments or accruals (including capital lease obligations) for any fixed assets or improvements or for replacements, substitutions or additions thereto, that have a useful life of more than one year and that are required to be capitalized under GAAP.

“**Capital Lease**” shall mean, with respect to any Person, any lease of any real property, fixtures or equipment by such Person as lessee that, in accordance with GAAP, would be required to be classified and accounted for as a capital lease or a finance lease on a balance sheet of such Person, other than, in the case of any Borrower or any Credit Party, any such lease under which any Borrower is the lessor.

“Capital Lease Obligation” shall mean, with respect to any Capital Lease, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would be capitalized on a balance sheet of such lessee in respect of such Capital Lease.

“Cash Collateral Account” shall have the meaning assigned to it in Schedule C.

“Cash Dominion Period” shall mean a period: (i) commencing on the date on which either (x) an Event of Default has occurred and has been continuing; or (y) Net Borrowing Availability has been less than \$ \$6,250,000 for five (5) consecutive Business Days; and (ii) ending on the first date thereafter on which both (x) no Event of Default has existed or been continuing at any time; and (y) Net Borrowing Availability shall have been not less than \$6,250,000 for thirty (30) consecutive calendar days.

“Cash Taxes” means for any Person for any period, the amount of all income Taxes (including federal and provincial income Taxes) and other Taxes payable by such Person on its net taxable income or its capital for such period (which for greater certainty, does not include deferred Taxes or refundable Taxes).

“CCAA” shall mean the *Companies’ Creditors Arrangement Act* (Canada) and any successor legislation thereto, as in effect from time to time or at any time.

“Change of Control” shall mean, the occurrence of any of the following events:

- (a) one or more Persons, acting jointly or in concert (within the meaning of the *Securities Act* (Alberta)), shall acquire more than 50% of the interests in the Shares of a Borrower; or
- (b) a Borrower or any other Credit Party shall cease to own, control or direct 100% of the voting Shares of any Subsidiary of the Borrower.

“Charges” shall mean all federal, provincial, state, county, city, municipal, local, foreign or other governmental or quasi-governmental taxes, levies, customs or other duties, assessments, charges, liens, and all additional charges, interest, penalties, expenses, claims or encumbrances upon or relating to: (i) the Collateral; (ii) the Obligations; (iii) the employees, payroll, income or gross receipts of any Credit Party; (iv) the ownership or use of any assets by any Credit Party; or (v) any other aspect of any Credit Party’s business as well as any and all amounts at any time due and payable by any Credit Party to and/or in respect of any Plan (whether as a result of under-funding or otherwise).

“Chattel Paper” shall mean a writing or writings which evidence both a monetary obligation and a security interest in or lease of specific goods, but a charter or other contract involving the use or hire of a vessel is not Chattel Paper. When a transaction is evidenced by both such a security agreement or a lease and by an instrument or a series of instruments, the group of writings then together constitutes Chattel Paper. With respect to property located in the United States, Chattel Paper shall also include “Chattel Paper” as defined in the UCC and “Electronic chattel paper” as defined in the UCC.

“Closing Date” shall mean the Business Day on which the conditions precedent set forth in Section 2 have been satisfied or waived in writing by Lender and the initial Loan has been made.

“Closing Fee” shall have the meaning assigned to it in Schedule E.

“Code” means the U.S. Internal Revenue Code of 1986, and the United States Treasury Department regulations promulgated thereunder, each as amended from time to time.

“Collateral” shall have the meaning assigned to it in Section 6.1.

“Collateral Monitoring Fee” shall have the meaning assigned to it in Schedule E.

“Commitment Termination Date” shall mean the earliest of: (i) the Stated Expiry Date; and (ii) the date Lender’s obligation to advance funds, issue Letters of Credit or otherwise extend or continue any credit hereunder is otherwise terminated pursuant to the terms hereof.

“Compliance Certificate” shall mean a certificate in the form of Exhibit C.

“Consolidated Assets” means the total assets of the Canadian Borrower, as determined on a consolidated basis and as shown on the most recent financial statements of the Borrowers delivered to the Lender pursuant to Section 4.1.

“Continuation/Conversion Date” shall mean the date on which a Revolving Credit Advance is converted from or into or continued as a Revolving Credit Advance based upon the Term SOFR Rate or Adjusted Term CORRA.

“Contracts” shall mean all the contracts, undertakings, or agreements (other than rights evidenced by Chattel Paper, Documents or Instruments) in or under which any Person may now or hereafter have any right, title or interest, including any agreement relating to the terms of payment or the terms of performance of any Account.

“Contractual Obligation” shall mean as to any Person, any provision of any security issued by such Person or of any agreement, instrument, or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Convertible Debentures” means (i) the convertible unsecured subordinated debentures of the Canadian Borrower in a principal amount of \$40,250,000 issued pursuant to a first supplemental indenture dated as of January 25, 2021; and (ii) the convertible unsecured subordinated debentures of the Canadian Borrower in a principal amount not to exceed \$50,000,000 to be issued pursuant to a second supplemental indenture dated on or about November 2021.

“Copyright License” shall mean rights under any written agreement now owned or hereafter acquired by any Person granting the right to use any Copyright or Copyright registration.

“Copyrights” shall mean all of the following now owned or hereafter acquired by any Person: (i) all copyrights in any original work of authorship fixed in any tangible medium of expression, now known or later developed, all registrations and applications for registration of any such copyrights in the United States, Canada or any other country, including registrations, recordings and applications, and supplemental registrations, recordings, and applications in the United States Copyright Office or in the applicable office in Canada; and (ii) all Proceeds of the foregoing, including license royalties and proceeds of infringement suits, the right to sue for past, present and future infringements, all rights corresponding thereto throughout the world and all renewals and extensions thereof.

“CORRA” means the Canadian Overnight Repo Rate Average administered and published by the Bank of Canada (or any successor administrator).

“Credit Party” shall mean each Borrower and each Guarantor.

“Daily Compounded CORRA” means, for any day (a **“Daily Compounded CORRA Rate Day”**), a rate per annum equal to CORRA for the day (such day, the **“Daily Compounded CORRA Determination Day”**), that is five (5) Business Days prior to (i) if such Daily Compounded CORRA Rate Day is a Business Day, such Daily Compounded CORRA Rate Day or (ii) if such Daily Compounded CORRA Rate Day is not a Business Day, the Business Day immediately preceding such Daily Compounded CORRA Rate Day, in each case, as CORRA is published by the administrator; provided, however, that if as of 5:00 p.m. (Toronto time) on any Daily Compounded CORRA Determination Day, CORRA for the applicable tenor has not been published by the administrator and a Canadian Benchmark Replacement Date with respect to Daily Compounded CORRA has not occurred, then Daily Compounded CORRA will be CORRA as published by the administrator on the first preceding Business Day for which CORRA was published by the administrator so long as such first preceding Business Day is not more than three (3) Business Days prior to such Daily Compounded CORRA Determination Day; provided, that to the extent such rate as determined above shall, at any time, be less than zero, such rate shall be deemed to be zero for all purposes herein.

“Default” shall mean the occurrence of any Event of Default or event which, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

“Default Rate” shall have the meaning assigned to it in Section 1.5(c).

“Depreciation Expense” means, for any period with respect to any Person, depreciation, amortization, depletion and other like reductions to income of such Person for such period not involving any outlay of cash.

“Disbursement Accounts” shall have the meaning assigned to it in Schedule D.

“Documents” shall mean all documents of title (as defined in the PPSA), and with respect to property located in the United States, “Documents” as such term is defined in the UCC, now owned or hereafter acquired by any Person, wherever located, including all bills of lading, dock warrants, dock receipts, warehouse receipts, and other documents of title, whether negotiable or non-negotiable.

“Eligible Accounts” shall mean as at the date of determination, all Accounts of the Borrowers except any Account:

- (a) that does not arise from the sale of goods or the performance of services by such Borrower in the ordinary course of such Borrower’s business;
- (b) upon which: (i) such Borrower’s right to receive payment is not absolute or is contingent upon the fulfillment of any condition whatsoever; or (ii) such Borrower is not able to bring suit or otherwise enforce its remedies against the Account Debtor through judicial process;
- (c) to the extent of any concessions, offsets, deductions, contras, returns, chargebacks or understandings with the Account Debtor therein that in any way could reasonably be expected to adversely affect the payment of, or the amount of, such Account, or for which the Account Debtor has disputed its obligation to pay all or any portion of the Account;
- (d) with respect to which an invoice, acceptable to Lender in form and substance, has not been sent to the Account Debtor;
- (e) that is not owned by such Borrower or is subject to any right, claim, or interest of another Person, other than Permitted Encumbrances which are in favour of Lender or have been subordinated on terms satisfactory to Lender to Liens in favour of Lender or which otherwise rank in priority behind the Liens in favour of Lender;
- (f) that arises from a sale to or performance of services for an employee, Affiliate, Subsidiary or Shareholder of such Borrower or any other Credit Party, or an entity which has common officers or directors with such Borrower or any other Credit Party;
- (g) that is the obligation of an Account Debtor that is the federal, state, provincial or territorial government or a political subdivision thereof, or any department, agency, public corporation or instrumentality thereof unless Lender has agreed to the contrary in writing;
- (h) that is the obligation of an Account Debtor located other than in Canada or the continental United States unless such Account is supported by a letter of credit in which Lender has a first priority perfected security interest and Lien by possession or credit insurance acceptable to Lender (and naming Lender as loss payee);
- (i) that is the obligation of an Account Debtor to whom such Borrower is or may become liable for goods sold or services rendered by the Account Debtor to such Borrower, to the extent of such Borrower’s liability to such Account Debtor;

- (j) that arises with respect to goods which are delivered on a cash-on-delivery basis or placed on consignment, guaranteed sale or other terms by reason of which the payment by the Account Debtor may be conditional;
- (k) that is an obligation for which the total unpaid Accounts of the Account Debtor exceed 25% (or 50% in the case of Accounts (i) payable by an Investment Grade Debtor; or (ii) insured with an insurer which is acceptable to Lender on terms satisfactory to Lender in its sole discretion) of the aggregate of all gross Accounts as related to accounts receivable (excluding any inter-company accounts receivable), to the extent of such excess;
- (l) that is not paid within sixty (60) days from its due date or ninety (90) days (one hundred and twenty (120) days in the case of Accounts (i) payable by an Investment Grade Debtor; or (ii) insured with an insurer which is acceptable to Lender on terms satisfactory to Lender in its sole discretion) from its invoice date or that are Accounts of an Account Debtor if 50% or more of the Accounts owing from such Account Debtor remain unpaid within such time periods;
- (m) that has a due date of more than ninety (90) days from its invoice date;
- (n) that is an obligation of an Account Debtor that has suspended business, made a general assignment for the benefit of creditors, is unable to pay its debts as they become due or as to which a petition has been filed (voluntary or involuntary) under any law relating to bankruptcy, insolvency, reorganization or relief of debtors;
- (o) that arises from any pre-billing invoices, progress billing, bill-and-hold or other sale of goods which remain in such Borrower's possession or under Borrower's control;
- (p) as to which Lender's interest therein is not a first priority perfected security interest and Lien;
- (q) to the extent that such Account exceeds any credit limit established by Lender in Lender's good faith discretion;
- (r) as to which any of Borrower's representations or warranties pertaining to Accounts are untrue;
- (s) that represents interest payments, late or finance charges, or service charges owing to such Borrower;
- (t) with respect to which the Account Debtor is located in any state of the United States or province of Canada which requires the filing of a Notice of Business Activities Report or registration or licensing to carry on business or similar report, registration or licensing in order to permit Borrower to seek judicial enforcement in such state of the United States or province of Canada of payment of such Account, unless such Borrower qualifies to do business in such state or files a Notice of Business Activities Report or registration or licensing to carry on business or equivalent report, registration or licensing following such Account Debtor being delinquent in paying the amount due; or
- (u) that is not otherwise acceptable in the good faith discretion of Lender, provided, that Lender shall have the right to create and adjust eligibility standards and related reserves from time to time in its good faith discretion.

"Eligible Inventory" shall mean as at the date of determination, all Inventory of the Borrowers, including Inventory covered by commercial Letters of Credit, that:

- (a) is not subject to any Liens other than Permitted Encumbrances which are in favour of Lender or have been subordinated on terms satisfactory to Lender to Liens in favour of Lender or which otherwise rank in priority behind the Liens in favour of Lender;
- (b) is located on premises in Canada or the United States owned or operated by Borrower and referenced in Disclosure Schedule (3.6) or is located on premises in Canada with respect to which Lender has received a landlord, bailee or mortgagee letter acceptable in form and substance to Lender or, in the sole discretion of Lender, in respect of which Lender has established an appropriate reserve;
- (c) is not in transit unless and subject to Lender's discretion (i) title has been transferred to Borrower; (ii) the goods are in transit to Borrower's premises; (iii) the goods are insured to Lender's satisfaction with Lender as first loss payee and such insurance has been assigned to Lender to its satisfaction; (iv) the goods are supported by documentation acceptable to Lender (including but not limited to the original bill of lading and invoice and the documentation provided for in paragraph (d)); and (v) any and all amounts in respect of the purchase and transportation of such Inventory, including duty, freight, brokerage fees, insurance and other similar costs (all such amounts other than purchase price, the "**Clearance Costs**"), are either (A) supported by a letter of credit acceptable to Lender, (B) paid for by Borrower and such payments have been verified by Lender, (C) as to the Clearance Costs, reserved for in the Borrowing Base and, as to the purchase price, reserved for in the Borrowing Base unless waivers of all repossession, revendication or similar rights of an unpaid supplier have been received to the satisfaction of Lender or (D) or such other arrangement that may be satisfactory to Lender;
- (d) is not covered by a negotiable document of title, unless such document and evidence of acceptable insurance covering such Inventory has been delivered to Lender;
- (e) is of good and merchantable quality, free from any defects and is not obsolete, unsalable, shopworn, damaged, unfit for further processing or of substandard quality in Lender's good faith credit judgment;
- (f) does not consist of: (i) discontinued items; (ii) slow-moving or excess items; or (iii) used items held for resale;
- (g) consists of (i) raw materials that are building materials including aluminum, hardware and millwork, willow glass, and plastics, or (iii) finished goods;
- (h) meets all standards imposed by any Governmental Authority, including with respect to its production, acquisition or importation (as the case may be);
- (i) is not placed by Borrower on consignment or held by Borrower on consignment from another Person;
- (j) is not held for rental or lease by or on behalf of Borrower;
- (k) meets or does not violate any warranty, representation or covenant contained in this Agreement or any other Loan Document;
- (l) is not subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third parties;
- (m) does not require the consent of any Person for the completion or manufacture, sale or other disposition of such Inventory by Lender and such completion, manufacture or sale does not constitute a breach or default under any contract or agreement to which Borrower is a party or to which such Inventory is or may become subject;

- (n) is not subject to unpaid suppliers' repossession rights or retention of title claims; and
- (o) is in a location where the aggregate amount of Inventory that would otherwise be considered eligible, is at least \$50,000; and
- (p) is otherwise acceptable in the good faith discretion of Lender, provided that, Lender shall have the right to create and adjust eligibility standards and related reserves from time to time in its good faith discretion.

"Eligible Investment Grade or Insured Accounts" shall mean Eligible Accounts that are either: (i) payable by an Investment Grade Debtor; or (ii) insured with an insurer which is acceptable to Lender on terms satisfactory to Lender in its sole discretion.

"Environmental Laws" shall mean all federal, provincial, state, municipal and local laws, statutes, ordinances, programs, permits, guidance, orders, decrees and regulations, now or hereafter in effect, and in each case as amended or supplemented from time to time, and any applicable judicial or administrative interpretation thereof relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation).

"Environmental Liabilities" shall mean all liabilities, obligations, responsibilities, remedial actions, removal costs, losses, damages of whatever nature, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim, suit, action or demand of whatever nature by any Person and which relate to any health or safety condition regulated under any Environmental Law, environmental permits or in connection with any Release, threatened Release, or the presence of a Hazardous Material.

"EPA" shall mean the *Environmental Protection and Enhancement Act* (Alberta) and the similar laws of Canada, the United States of America or any other country, including any province, state, territory or other political subdivision thereof where any Collateral may be located, and any successor law or statute, as in effect from time to time or at any time.

"Equipment" shall mean all "equipment" as defined in the PPSA (or with respect to property in the US, all "equipment" as defined in Article 9 of the UCC) and, in any event, shall include tangible or corporeal property other than Inventory, now or hereafter acquired by any Person, wherever located, including any and all machinery, apparatus, equipment, fittings, furniture, fixtures, motor vehicles and other tangible or corporeal personal or movable property (other than Inventory) of every kind and description which may be now or hereafter used in such Person's operations or which are owned by such Person or in which such Person may have an interest, and all parts, accessories and accessions thereto and substitutions and replacements therefor.

"Equivalent Amount" shall mean the amount of U.S.\$ to which any amount in \$ is equivalent as determined by Lender based on its rate of exchange as determined at noon (Toronto time) on the date of determination.

"ERISA" shall mean the *Employee Retirement Income Security Act* of 1974, as amended, and regulations promulgated thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) under common control with any Credit Party within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" shall mean (a) a Reportable Event with respect to a Plan, (b) a withdrawal by any Credit Party or any ERISA Affiliate from a Plan during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA, (c) a complete or partial withdrawal by any Credit Party or any ERISA Affiliate from a Multi-employer Plan or other Plan regulated or governed by other applicable legislation or

notification that a Multi-employer Plan or Plan regulated or governed by or other applicable legislation is in reorganization, (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA or other law, or the commencement of proceedings by the PBGC pursuant to Section 4042 of ERISA or other applicable Governmental Authority to terminate a Plan or to appoint a trustee to administer any Plan or Multi-employer Plan, or (e) the imposition of any liability under Title IV of ERISA or other applicable legislation (other than for PBGC premiums due but not delinquent under Section 4007 of ERISA or other similar legislation) upon any Credit Party or any ERISA Affiliate.

“Event of Default” shall have the meaning assigned to it in Section 7.1.

“Existing Credit Facility” shall mean the Credit Agreement dated July 19, 2019 between DIRTT Environmental Solutions Ltd. as Borrower, DIRTT Environmental Solutions, Inc. as Guarantor and Royal Bank of Canada, as lender, as amended, supplemented and restated from time to time.

“FCCR Trigger” means any time that (i) an Event of Default has occurred and is continuing or (ii) Net Borrowing Availability is less than \$5,000,000.

“Federal Funds Rate” means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Royal Bank on such day on such transactions as determined by the Lender.

“Fees” shall mean the fees due to Lender as set forth in Schedule E.

“Field Examination” shall have the meaning assigned to it in Section 6.2(c).

“Field Examination Fees” shall have the meaning assigned to it in Schedule E.

“Financial Statements” shall mean for any Person, the income statement, balance sheet and statement of cash flows of such Person, prepared in accordance with GAAP.

“Fiscal Month” shall mean a monthly accounting period of Borrower or of a Credit Party, as applicable.

“Fiscal Year” shall mean the twelve (12) month period of Borrower ending December 31st of each year. Subsequent changes of the fiscal year of Borrower shall not change the term “Fiscal Year” unless Lender shall consent in writing to such change.

“Fixed Charge Coverage Ratio” shall mean with respect to the Canadian Borrower on a consolidated basis, the ratio of (i) Adjusted EBITDA for the most recently completed twelve month period less Cash Taxes actually paid during such twelve month period, Unfunded Capital Expenditures actually paid in such twelve month period, and Restricted Payments actually made in such twelve month period, plus, in each case without duplication, operating leases and rent, to (ii) Fixed Charges for the same period.

“Fixed Charges” means, with respect to any Person for any period and on a consolidated basis, the sum of (in each case, without duplication) (i) Total Interest Expense, (ii) all Indebtedness repayments required to be paid by such Person during such period, (iii) all amounts actually paid by such Person in respect of Capital Leases during such period, and (iv) all rent and other charges actually paid by such Person during such period with respect to all operating leases.

“Floor” means the benchmark rate floor, if any, provided in this Agreement initially (as of the execution of this Agreement, the modification, amendment or renewal of this Agreement or otherwise) with respect to Term SOFR. For the avoidance of doubt, the initial Floor for Term SOFR shall be 0.00%.

“FSCO” shall mean the Financial Services Commission of Ontario and any Person succeeding to the functions thereof and includes the Superintendent under the PBA and any other public authority empowered or created by the PBA.

“Funded Debt” shall mean, with respect to any Person, all of such Person’s Indebtedness consisting of or relating to the borrowing of money or the obtaining of credit (other than trade payables incurred in the ordinary course of business).

“Fx Contracts” shall have the meaning assigned to it in Schedule H.

“Fx Facility” shall have the meaning assigned to it in Schedule H.

“Fx Reserve” shall have the meaning assigned to it in Schedule H.

“GAAP” shall mean United States generally accepted accounting principles adopted by the United States Securities and Exchange Commission, including United States Accounting Standards and interpretations together with their accompanying documents which are set by the Financial Accounting Standards Board and the Emerging Issues Task Force, but only to the extent the same are adopted by the American Institute of Certified Public Accountants as generally accepted accounting principles in the United States and then subject to such modifications thereto as are agreed by the American Institute of Certified Public Accountants on a consistent basis. For greater certainty, for the purposes of this Agreement, including all financial calculations to be made hereunder, any lease accounted for as an “operating lease” as defined under U.S. GAAP shall be excluded from Capital Lease calculations.

“Goods” shall mean all “goods,” as such term is defined in the PPSA (or with respect to property located in the United States, “Goods” as defined in the UCC) and, in any event, includes all things which are movable at the time Lender’s Liens attach thereto (other than money, Documents, Instruments, Accounts, Chattel Paper and Intangibles) as well as all fixtures, all now owned or hereafter acquired by any Person, wherever located, including Equipment, Inventory and all other tangible or corporeal personal or movable property.

“Goodwill” shall mean all goodwill, trade secrets, proprietary or confidential information, technical information, procedures, formulae, quality control standards, designs, operating and training manuals, customer lists, and distribution agreements now owned or hereafter acquired by any Person.

“Governmental Authority” shall mean any nation or government, any state, provincial, territorial or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Guarantee” shall mean any guarantee or any other agreement to perform all or any portion of the Obligations on behalf of any Borrower or any other Credit Party, in favour of, and in form and substance satisfactory to, Lender, together with all amendments, modifications and supplements thereto and restatements and replacements thereof, and shall refer to such Guarantee as the same may be in effect at the time such reference becomes operative.

“Guaranteed Indebtedness” shall mean, as to any Person, any obligation of such Person guaranteeing any indebtedness, lease, dividend, or other obligation (“primary obligations”) of any other Person (the “primary obligor”) in any manner, including any obligation or arrangement of such guaranteeing Person (whether or not contingent): (i) to purchase or repurchase any such primary obligation; (ii) to advance or supply funds (a) for the purchase or payment of any such primary obligation, or (b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor; (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to

make payment of such primary obligation; or (iv) to indemnify the owner of such primary obligation against loss in respect thereof.

“Guarantor” shall mean each Person which executes a Guarantee in favour of Lender in connection with the transactions contemplated by this Agreement.

“Hazardous Material” shall mean any substance, material or waste which is regulated by or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance which is: (i) defined as a “solid waste,” “hazardous waste,” “hazardous material,” “hazardous substance,” “extremely hazardous waste,” “restricted hazardous waste,” “pollutant,” “contaminant,” “hazardous constituent,” “special waste,” “toxic substance” or other similar term or phrase under any Environmental Laws; (ii) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB’s); or (iii) any radioactive substance.

“Hazardous Waste” shall include any Hazardous Material as well as any other substance, material or waste which is now or may hereafter be classified as hazardous (or similarly classified) under any applicable legislation.

“Indebtedness” of any Person shall mean: (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (including reimbursement and all other obligations with respect to surety bonds, letters of credit and bankers’ acceptances, whether or not matured, but not including obligations to trade creditors incurred in the ordinary course of business and not more than forty five (45) days past due); (ii) all obligations evidenced by notes, bonds, debentures or similar instruments; (iii) all indebtedness created or arising under any conditional sale or other title retention agreements with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (iv) all Capital Lease Obligations; (v) all Guaranteed Indebtedness; (vi) all Indebtedness referred to in clauses (i), (ii), (iii), (iv) or (v) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (vii) the Obligations.

“Indemnified Liabilities” and **“Indemnified Person”** shall have the meaning assigned to such terms in Section 1.12.

“Instruments” shall mean all “instruments,” as defined in the PPSA (and with respect to property located in the United States, all “Instruments” as defined in the UCC) and, in any event, includes all negotiable instruments (including all bills of exchange and promissory notes), all certificated securities or any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is, in the ordinary course of business, transferred by delivery with any necessary endorsement or assignment, now owned or hereafter acquired by any Person, wherever located, including all certificated securities and all notes and other evidences of indebtedness, other than instruments that constitute, or are a part of a group of writings that constitute, Chattel Paper.

“Intangibles” shall mean all “intangibles” as defined in the PPSA (and with respect to any property located in the United States, all “General Intangibles” as defined in the UCC) and, in any event, includes intangible or incorporeal personal property, moveable or immovable now owned or hereafter acquired by any Person, including all right, title and interest which such Person may now or hereafter have in or under any Contract, Intellectual Property, interests in partnerships, joint ventures and other business associations, permits, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials, Books and Records, Goodwill (including the Goodwill associated with any Intellectual Property), all rights and claims in or under insurance policies (including insurance for fire, damage, loss and casualty, whether covering personal or moveable property, real or immovable property, tangible rights or intangible rights, corporeal or incorporeal rights, all liability, life, key-person, and business interruption insurance, and all unearned premiums), uncertificated securities, choses in action, deposit accounts, rights to receive tax refunds and other payments and rights of indemnification.

"Intellectual Property" shall mean any and all Licenses, Patents, Copyrights, Trademarks, trade secrets and customer lists.

"Interest Determination Date" shall mean, with respect to any Revolving Credit Advances made based upon the Term SOFR Rate, the date which is two (2) Business Days before the first day of the Interest Period for the Term SOFR Rate applicable to such Revolving Credit Advance.

"Interest Payment Date" shall mean, with respect to Revolving Credit Advances made based upon Adjusted Term CORRA or the Term SOFR Rate, the earlier of thirty (30) days from the Business Day of the proposed advance of such Revolving Credit Advance and the last day of the Interest Period applicable to such Revolving Credit Advance and, with respect to each Interest Period of more than 30 days, on each date that occurs at intervals of 30 days duration after the commencement of the Interest Period.

"Interest Period" means, (a) with respect to each Term CORRA Loan, the initial period (subject to availability) of one (1), three (3) months or such other period as the Lender permits commencing on and including the date specified in the Notice of Borrowing or Notice of Continuation/Conversion in the form attached hereto as Exhibit A, or if the Borrowers elect to continue any Term CORRA Loan in accordance with Section 1.6(a)(iv), the date the Borrowers have notified the Lender as the date on which to continue such Term CORRA Loan, as the case may be, as the case may be, applicable to such Term CORRA Loan and ending on and excluding the last day of such initial period, and thereafter, each successive period (subject to availability) of approximately one (1) or three (3) months or such other permitted period as selected by the Borrower and notified to the Lender in writing commencing on and including the last day of the prior Interest Period, or (b) with respect to each Revolving Credit Advance made based upon the Term SOFR Rate, the period (subject to market availability) commencing on the Business Day of the proposed advance of such Revolving Credit Advance or on the Continuation/Conversion Date on which such Revolving Credit Advance is converted into or continued as a Revolving Credit Advance based upon the Term SOFR Rate, and ending on the date that is one (1) or three (3) months thereafter as selected by a Borrower in its Notice of Borrowing or Notice of Continuation/Conversion in the form attached hereto as Exhibit A, provided that:

- (a) in the case of any continuation of a Term CORRA Loan pursuant to Section 1.6(a)(iv), the last day of each Interest Period shall also be the first day of the next Interest Period;
- (b) the last day of each Interest Period shall be a Business Day and if not, the Borrower shall be deemed to have selected an Interest Period the last day of which is the first Business Day following the last day of the Interest Period selected by the Borrower, unless such first Business Day is in a succeeding calendar month, in which case, the last day of such Interest Period shall be the immediately preceding Business Day;
- (c) notwithstanding any of the foregoing, the last day of each Interest Period shall be on or before the Stated Expiry Date;
- (d) no tenor that has been removed from this definition pursuant to Section 1.16 shall be available for specification in such Notice of Borrowing or interest election; and
- (e) Interest Periods commencing on the same date for Revolving Credit Advances made based on the Term SOFR Rate that are part of the same Revolving Credit Advance shall be of the same duration.

"Inventory" shall mean all "inventory," as such term is defined in the PPSA (or with respect to property located in the United States, all "inventory" as such term is defined in the UCC), now or hereafter owned or acquired by any Person, wherever located, including all inventory, merchandise, goods and other personal property which are held by or on behalf of such Person for sale or lease or are furnished or are to be furnished under a contract of service or which constitute raw materials, work in process or materials used or consumed or to be used or consumed in such Person's business or in the processing, production, packaging, promotion, delivery or shipping of the same, including other supplies.

"Investment Grade Debtor" shall mean a debtor of a Borrower whose long-term unsecured and unsubordinated indebtedness has been rated as follows by 2 of the 3 rating agencies below:

- (a) S&P: \geq BBB-
- (b) Moody's: \geq Baa3
- (c) DBRS: \geq BBB-

"Investment Property" shall mean all investment property now or hereafter acquired by any Person, wherever located and includes securities (whether or not certificated), securities entitlement, securities account, futures contract, commodity contract or commodity account and with respect to property located in the United States shall include "Investment Property" as such term is defined in the UCC.

"Lender" shall mean Royal Bank of Canada and, if at any time Lender shall decide to assign or syndicate all or any of the Obligations, such term shall include such assignee or such other members of the syndicate.

"Letters of Credit" shall mean any and all commercial, documentary or standby letters of credit issued at the request and for the account of a Borrower for which Lender has incurred Letter of Credit Obligations, and includes any letters of guarantee issued in the discretion of Lender.

"Letter of Credit Fee" shall have the meaning assigned to it in Schedule E.

"Letter of Credit Obligations" shall mean all outstanding obligations (including all duty, freight, taxes, costs, insurance and any other charges and expenses) incurred by Lender, whether direct or indirect, contingent or otherwise, due or not due, in connection with the issuance or guarantee, by Lender or another, of Letters of Credit, all as further set forth in Schedule C.

"Letter of Credit Sublimit" shall mean \$5,000,000, or the Equivalent Amount thereof in U.S.\$.

"License" shall mean any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by any Person.

"Lien" shall mean, whether based on common law, statute or contract, whether choate or inchoate, whether or not crystallized or fixed, whether or not for amounts due or accruing due: (i) any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, security title, deemed trust, requirement to pay, easement, reservation, exception, encroachment, privilege, title exception, garnishment right, prior claim or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement and any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the PPSA the UCC, the *Civil Code of Québec* or comparable law of any jurisdiction); and (ii) any rights of repossession or similar right of an unpaid supplier.

"Litigation" shall mean any claim, lawsuit, litigation, investigation or proceeding of or before any arbitrator or Governmental Authority.

"Loan Documents" shall mean this Agreement, each Guarantee, the Blocked Accounts Agreement, and the other documents and instruments listed in Schedule F, and all security agreements, hypothecs, mortgages and all other documents, instruments, certificates, and notices at any time delivered by any Person (other than Lender and its Affiliates) in connection with any of the foregoing.

"Loans" shall mean the Revolving Credit Loan (including Overdrafts and the Letter of Credit Obligations).

"Material Adverse Effect" shall mean a material adverse effect on:

- (a) the financial condition of the Borrowers and the other Credit Parties, taken as a whole;

- (b) the Borrowers' and the other Credit Parties' ability taken as a whole to perform their respective obligations under the Loan Documents;
- (c) the property, business, operations, corporate governance or liabilities of the Borrowers and the other Credit Parties, taken as a whole; or
- (d) the priority ranking of any Collateral, or the rights or remedies intended or purported to be granted to the Lender under or pursuant to this Agreement or any other Loan Documents.

"Margin Stock" shall mean "margin stock" as such term is defined in Regulation T, U or X of the Board of Governors of the Federal Reserve System (or any successor thereto).

"Material Contract" shall mean any agreement to which any Credit Party is party which constitutes a guarantee in such Credit Party's favour or otherwise providing for any Lien on another Person's property, is essential to a Credit Party's ability to carry on business as currently conducted (including without limitation, take or pay contracts and product licenses) or the breach or termination of which could otherwise give rise to a Material Adverse Effect.

"Maximum Amount" shall mean \$15,000,000 or the Equivalent Amount thereof in U.S.\$.

"Minimum Actionable Amount" shall mean \$500,000 or the Equivalent Amount thereof in U.S.\$.

"Miscellaneous Fees" shall have the meaning assigned to it in Schedule E.

"Multi-employer Plan" shall mean a "multi-employer plan" as defined in Section 4001(a)(3) of ERISA which is or was at any time during the current year or the immediately preceding six (6) years contributed to by any Credit Party or any ERISA Affiliate.

"Net Borrowing Availability" shall mean at any time the Borrowing Availability less all outstanding Revolving Credit Loans, plus, for so long as the Borrowers do not have any Loans outstanding (excluding Letter of Credit Obligations which are fully cash collateralized in the manner set forth in Schedule C), unrestricted cash of the Borrowers in which Lender has a first priority perfected security interest. For greater certainty, upon delivery of the first Notice of Borrowing or first request for a Letter of Credit that is not cash collateralized under this Agreement, Net Borrowing Availability shall be recalculated to exclude the unrestricted cash of the Borrowers.

"Net Income" shall mean with respect to any Person for any period, the net revenue of such Person for such period on a consolidated basis, less all expenses and other charges not otherwise deducted in computing such net revenue for such period, determined in accordance with GAAP, but excluding extraordinary items as determined in accordance with GAAP, earnings resulting from any reappraisal, revaluation or other write-up of assets and gains arising from the repurchase of any equity security of such Person or any Subsidiary.

"Notice of Borrowing" shall have the meaning assigned to it in Section 1.1(b).

"Notice of Continuation/Conversion" shall have the meaning assigned to in Section 1.6(b).

"Obligations" shall mean all loans, advances, debts, expense reimbursement, fees, liabilities, and obligations for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or determinable) owing by any Borrowers and any other Credit Party to Lender, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, whether arising under any of the Loan Documents or under any other agreement between Borrower, such Credit Party and Lender, and all covenants and duties regarding such amounts including all such obligations and liabilities in respect of the RBC Lease Facility, Bank Products, Overdrafts and reimbursement obligations in respect of Letters of Credit. This term includes all principal, interest, Fees, Charges, expenses, legal fees and any other sum

chargeable to Borrower under any of the Loan Documents, and all principal and interest due in respect of the Loans and all obligations and liabilities of any Guarantor under any Guarantee.

"**OFAC**" means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

"**Overdraft**" shall have the meaning assigned to it in Section 1.1(f).

"**Patent License**" shall mean rights under any written agreement now owned or hereafter acquired by any Person granting any right with respect to any invention on which a Patent is in existence.

"**Patents**" shall mean all of the following in which any Person now holds or hereafter acquires any interest: (i) all patents and letters patent of the United States, Canada or any other country, all registrations and recordings thereof, and all applications for patents and letters patent of the United States, Canada or any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, Canada or any province, state or territory thereof, or any other country; and (ii) all reissues, continuations, continuations-in-part or extensions thereof.

"**Payment Conditions**" shall mean that (a) no Default or Event of Default has occurred and is continuing or would result from any applicable action, (b) Net Borrowing Availability will be at least \$10,000,000 on a pro forma basis after giving effect to the applicable action and on each of the thirty (30) consecutive calendar days immediately prior to such action on a pro forma basis after giving effect to the applicable action, (c) the Fixed Charge Coverage Ratio calculated on a trailing twelve month basis would be at least 1.10:1.00 on a pro forma basis as of the most recent Fiscal Month for which Financial Statements have been delivered in accordance with Section 4.1, and (d) the Borrowers shall have delivered a customary officer's certificate certifying as to compliance with the foregoing conditions and setting forth the calculations thereof in reasonable detail.

"**PBA**" shall mean the *Pension Benefits Act* (Ontario) and the similar laws of any other province or territory of Canada, as in effect from time to time or at any time.

"**PBGC**" shall mean the Pension Benefit Guaranty Corporation or any Governmental Authority succeeding to the functions thereof.

"**Pension Event**" shall mean: (i) the existence of any unfunded liability or windup or Withdrawal Liability, including contingent withdrawal or windup liability, or any solvency deficiency in respect of any Plan; (ii) the whole or partial termination or windup of any Plan or occurrence of any act, event or circumstance which could give rise to the whole or partial termination or windup of any Plan; (iii) the failure to make any contribution or remittance in respect of any Plan when due; (iv) the failure to file any report, actuarial valuation, return, statement or other document, when due, in respect of any Plan; (v) the existence of any Lien except in respect of current contribution amounts not due in connection with any Plan; (vi) the establishment or commencement to contribute to any Plan not in existence on the date thereof; or (vii) any violation of, or non-compliance with, any of the rules or regulations contained in the Employee Retirement Income Security Act of 1974 as same may be amended from time to time.

"**Periodic Term CORRA Determination Day**" has the meaning assigned to it under the definition of Term CORRA.

"**Permitted Encumbrances**" shall mean (provided same shall not constitute any agreement by Lender to subordinate any of its Liens to same) the following encumbrances:

- (a) any Lien created by, or arising under a statute or regulation or common law (in contrast with Liens voluntarily granted) in connection with, without limiting the foregoing, workers' compensation, employment insurance, employers' health tax or other social security or statutory obligations that secure amounts that are not yet due or which are being contested in good faith by proper proceedings diligently pursued and as to which

adequate reserves have been established on the applicable Credit Parties' books and records and a stay of enforcement of the Lien is in effect;

- (b) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases, statutory obligations or surety and performance bonds;
- (c) any construction, workers', materialmen's or other like Lien created by law (in contrast with Liens voluntarily granted), after the Closing Date arising in connection with construction or maintenance in the ordinary course of business, in respect of obligations which are not due or which are being contested in good faith by proper proceedings diligently pursued and as to which adequate reserves have been established under GAAP on any Credit Parties' books and records and a stay of enforcement of the Lien is in effect;
- (d) any Lien for taxes not due or being contested in good faith by appropriate proceedings diligently pursued and as to which adequate reserves have been established on the applicable Credit Parties' books and records and a stay of enforcement of the Lien is in effect;
- (e) minor imperfections in title on real property that do not materially detract from the value of the real property subject thereto and do not materially impair any Credit Parties' ability to carry on its business or Lender's rights and remedies under the Loan Documents;
- (f) restrictions, easements, rights-of-way, servitudes or other similar rights in land (including rights-of-way, and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved by other Persons which in the aggregate do not materially impair the usefulness, in the operation of the business of any Credit Party, of the real property subject to the restrictions, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons and, in each case, which do not impair the use and operation of the business by the Credit Party or impair Lender's rights and remedies under the Loan Documents;
- (g) the rights reserved to or vested in any Person by the terms of any lease, licence, franchise, grant or permit held by any Credit Party or by any statutory provision, to terminate any such lease, licence, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof;
- (h) the reservations, limitations, provisos and conditions, if any, expressed in any original grants from the Crown;
- (i) restrictive covenants affecting the use to which real property may be put, provided that the covenants are complied with and do not materially detract from the value of the real property concerned or materially impair its use in the operations of any Credit Party or impair Lender's rights and remedies under the Loan Documents;
- (j) Liens in favour of Lender created by the Loan Documents;
- (k) Liens disclosed in Disclosure Schedule (5.2(e)) but only to the extent such Liens conform to their description in Disclosure Schedule (5.2(e)), and includes any extension or renewal thereof provided the amount secured thereby does not exceed the original amount secured immediately prior to the extension, renewal or refinancing and the scope of security creating the Lien is not extended;

- (l) (i) Purchase Money Liens securing Purchase Money Indebtedness to the extent permitted under Section 5.2(b)(vii), and (ii) Liens securing Capital Lease Obligations permitted under Section 5.2(b)(viii) so long as such Liens do not at any time extend to or cover any assets (except for replacements, additions and accessions to such assets) other than the assets subject to such Capital Leases and the proceeds and products thereof and customary security deposits; provided that individual financings of fixed assets provided by one lender may be cross collateralized to other financings of fixed assets provided by such lender;
- (m) Liens given to a public utility or any municipality or governmental or other public authority when required by such utility or other authority in connection with the operation of the business or the ownership of the assets of the Person, provided that such Liens do not reduce the value of the assets of the Person or materially interfere with their use in the operation of the business of the Person or impair Lender's rights and remedies under the Loan Documents;
- (n) servicing agreements, development agreements, site plan agreements, and other agreements with governmental entities pertaining to the use or development of any of the assets of the Person, provided same are complied with and do not reduce the value of the assets of the Person or materially interfere with their use in the operation of the business of the Person including, without limitation, any obligations to deliver letters of credit and other security as required or impair Lender's rights and remedies under the Loan Documents;
- (o) applicable municipal and other governmental restrictions, including municipal by-laws and regulations, affecting the use of land or the nature of any structures which may be erected thereon, provided such restrictions have been complied with and do not reduce the value of the assets of the Person or materially interfere with their use in the operation of the business of the Person or impair Lender's rights and remedies under the Loan Documents;
- (p) Liens granted by the Canadian Borrower to Upper Canada Forrest Products Ltd. that secure indebtedness owing by the Canadian Borrower to Upper Canada Forest Products Ltd. for the supply of goods, which Liens are subject to a subordination and postponement agreement, in form and substance satisfactory to the Lender;
- (q) security in cash collateral in an aggregate amount of up to \$1,000,000 granted to the issuer of credit cards in respect of corporate credit cards for the Borrowers and the other Credit Parties; and
- (r) such other Liens as are agreed to in writing by the Lender.

"Permitted Investment" any direct or indirect (i) acquisition of any shares, partnership interests, participation interests in any arrangement, options or warrants, or any indebtedness, whether or not evidenced by any bond, debenture or other written evidence of a Person, or (ii) acquisition, by purchase or otherwise, of all or substantially all of the business, assets or stock or other evidence of beneficial ownership of a Person. The amount of any Investment will be the original cost of such Investment, plus the cost of all additions thereto and minus the amount of any portion of such Investment repaid to such Person in cash as a return of capital, or repayment of the principal amount of indebtedness, as the case may be, but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any property other than cash, such property will be valued at its fair market value at the time of such transfer.

"Person" shall mean any individual, sole proprietorship, partnership, limited liability partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, legal person, institution, public benefit corporation, entity or government (whether federal, provincial, state, county, city,

municipal or otherwise, including any instrumentality, division, agency, body or department thereof), and shall include such Person's successors and assigns.

"Plan" shall mean (i) any employee pension benefit plan which a Credit Party sponsors or maintains or to which it makes or is making or is required to make contributions, and includes any pension or benefit plan regulated by the FSCO or similar authority or otherwise subject to the PBA and (ii) any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which any Credit Party or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PPSA" shall mean the *Personal Property Security Act* (or any successor statutes) as the same may, from time to time, be in effect in the Province of Alberta; provided, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, non-perfection or priority of Lender's security interest in any Collateral is governed by the *Personal Property Security Act* as in effect in a jurisdiction other than the Province of Alberta, the term **"PPSA"** shall mean the *Personal Property Security Act* or a similar act or statute as in effect in such other jurisdiction for purposes of the provisions of this Agreement relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

"Proceeds" shall mean "proceeds," as such term is defined in the PPSA (and with respect to property located in the United States, "Proceeds" as defined in the UCC) and, in any event, includes whatever is received or receivable upon the sale, exchange, collection or other disposition of the Collateral and, in any event shall include: (i) any and all proceeds of any insurance, indemnity, warranty or guarantee payable to any Borrower or any other Credit Party from time to time with respect to any Collateral; (ii) any and all payments (in any form whatsoever) made or due and payable to any Borrower or any other Credit Party from time to time in connection with any requisition, confiscation, expropriation, seizure or forfeiture of any Collateral by any governmental body, authority, bureau or agency (or any person acting under colour of governmental authority); (iii) any claim of any Borrower or any other Credit Party against third parties (a) for past, present or future infringement of any Intellectual Property or (b) for past, present or future infringement or dilution of any Trademark or Trademark License or for injury to the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License; (iv) any recoveries by any Borrower or any other Credit Party against third parties with respect to any Litigation or dispute concerning any Collateral; and (v) any and all other amounts from time to time paid or payable under or in connection with any Collateral, upon disposition or otherwise.

"Projections" shall mean the projected consolidated and, when requested, consolidating, income statement, balance sheet, and statement of cash flows of Borrower and its Subsidiaries for any future period, including forecasted Capital Expenditures and Net Borrowing Availability.

"Purchase Money Indebtedness" shall mean: (i) any Indebtedness incurred for the payment of all or any part of the purchase price of any fixed asset; (ii) any Indebtedness incurred for the sole purpose of financing or refinancing all or any part of the purchase price of any fixed asset; (iii) any Indebtedness owing to a supplier incurred in the normal course of business for the sole purpose of financing all or any part of the purchase price of equipment provided no Lien is registered in respect to such Indebtedness and such Indebtedness is not overdue; and (iv) any renewals, extensions or refinancings thereof (but not any increases in the principal amounts thereof outstanding at that time).

"Purchase Money Lien" shall mean any Lien upon any fixed assets which secures the Purchase Money Indebtedness related thereto but only if such Lien shall at all times be confined solely to the asset the purchase price of which was financed or refinanced through the incurrence of the Purchase Money Indebtedness secured by such Lien and only if such Lien secures only such Purchase Money Indebtedness; provided that individual financings of fixed assets provided by one lender may be cross collateralized to other financings of fixed assets provided by such lender.

"RBC Lease Facility" shall mean all leasing arrangements which Royal Bank of Canada (or its Affiliates), as lessor, may provide to a Credit Party, as lessee, from time to time and all leasing schedules,

supplements, exhibits and lease documentation related thereto (as from time to time amended, modified, restated, supplemented or replaced) and includes the leasing facilities described in Schedule I hereto.

"RBP" means, with respect to a RBP based loan, on any day the greater of:

- (a) the annual rate of interest announced from time to time by the Lender as being its reference rate then in effect on such day for determining interest rates on Canadian Dollar denominated commercial loans made by it in Canada; and
- (b) Adjusted Term CORRA for an interest period of one month in effect from time to time plus 100 basis points per annum,

and provided that in no event shall RBP be less than zero for the purposes of this Agreement. RBP is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. Any change in RBP determined by the Lender shall be effective on the date the change becomes effective generally.

"RBUSBR" and **"Royal Bank U.S. Base Prime Rate"** means the higher of: (i) the annual rate of interest announced by the Royal Bank of Canada in Toronto, Ontario from time to time as being its reference rate in effect for determining interest rates on US Dollar commercial loans made by the Royal Bank of Canada in Canada, adjusted automatically with each quoted or published change in such rate, all without the necessity of any notice to Borrower or any other person, provided that, if any such referenced rate is below zero, then the RBUSBR shall be deemed to be zero, (ii) the Federal Funds Rate in effect on such day plus ½ of 1.00% and (iii) Adjusted Term SOFR for a one-month tenor in effect for such day plus 1.00%; provided that to the extent such highest rate as calculated above shall, at any time, be less than zero, such rate shall be deemed to be zero for all purposes herein. Any change in the RBUSBR due to a change in the prime rate, the Federal Funds Rate or Adjusted Term SOFR shall be effective on the opening of business on the day specified in the public announcement of such change in the prime rate, the Federal Funds Rate or Adjusted Term SOFR, respectively.

"Real Property" shall have the meaning assigned to it in Section 3.15.

"Release" shall mean, as to any Person, any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Materials in the indoor or outdoor environment by such Person, including the movement of Hazardous Materials through or in the air, soil, surface water, ground water or property.

"Relevant Canadian Governmental Body" means the Bank of Canada, or a committee officially endorsed or convened by the Bank of Canada, or any successor thereto.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30 day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"Requirement of Law" shall mean as to any Person, the certificate or articles of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, judgment, declaration, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Restricted Payment" shall mean:

- (a) the declaration or payment of any dividend or the incurrence of any liability to make any other payment or distribution of cash or other property or assets on or in respect of any Borrower's or any other Credit Party's Shares;
- (b) any payment or distribution made in respect of any subordinated Indebtedness of Borrower or any other Credit Party (excluding, so long as no Event of Default has

occurred and is continuing, regularly scheduled payments of interest on Convertible Debentures) in violation of any subordination or other agreement made in favour of Lender, but subject in all cases to the subordination, priority or intercreditor agreement with Lender;

- (c) any payment on account of the purchase, redemption, defeasance or other retirement of Borrower's or any other Credit Party's Shares or Indebtedness (excluding the RBC Leasing Facility and, so long as no Event of Default has occurred and is continuing, regularly scheduled payments of interest on Convertible Debentures) or any other payment, voluntary prepayment or distribution made in respect thereof, either directly or indirectly other than: (i) that arising under this Agreement, or (ii) interest and principal, when due without acceleration or modification of the amortization as in effect on the Closing Date, under Indebtedness (not including subordinated Indebtedness, payments of which shall be permitted only in accordance with the terms of the relevant subordination, priority or intercreditor agreement made in favour of Lender) described in Disclosure Schedule (5.2(b)) or otherwise permitted under Section 5.2(b)(vii), (viii), (ix), and (xi); or
- (d) any payment, loan, contribution, or other transfer of funds or other property to any Shareholder of such Person which is not expressly and specifically permitted in this Agreement; provided, that no payment to Lender shall constitute a Restricted Payment and no payment or transfer between Credit Parties shall constitute a Restricted Payment.

"Revolving Credit Advance" shall have the meaning assigned to it in Section 1.1(a).

"Revolving Credit Loan" shall mean at any time the sum of: (i) the aggregate amount of Revolving Credit Advances then outstanding; (ii) the total Letter of Credit Obligations incurred by Lender and outstanding at such time; and (iii) the amount of accrued but unpaid interest thereon and Letter of Credit Fees with respect thereto.

"Sanctioned Entity" shall mean (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program on the list maintained and published by OFAC and available at <http://www.treas.gov/offices/enforcement/ofac/programs>, or as otherwise published from time to time as such program may be applicable to such country, agency, organization or person.

"Sanctioned Person" means a person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html>, or as otherwise published from time to time.

"Shareholder" shall mean each holder of Shares of any Borrower or any other Credit Party.

"Shares" shall mean all certificated and uncertificated shares, options, warrants, membership interests, units, general or limited partnership interests, participation or other equivalents (regardless of how designated) of or in a corporation, partnership, limited partnership, unlimited liability company, limited liability company or equivalent entity whether voting or nonvoting, including common shares, preferred shares, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the *Securities Exchange Act* of 1934) or "security" (as defined in the *Securities Act* (Alberta) or any other applicable Canadian provincial legislation or regulations thereunder).

"SOFR" means a rate per annum equal to the secured overnight financing rate as administered by the SOFR Administrator.

“SOFR Administrator” means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

“SOFR Administrator’s Website” means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

“Solvent” means, with respect to any Credit Party, that as of the date of determination, (a) the sum of such Credit Party’s debt and other liabilities (including contingent liabilities) does not exceed the present fair saleable value of such Credit Party’s present assets as of such date, (b) such Credit Party’s capital is not unreasonably small in relation to its business as contemplated on such date or with respect to any transaction contemplated to be undertaken after such date, (c) such Credit Party has not incurred and does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts and liabilities (including contingent liabilities) beyond its ability to pay such debts and liabilities as they become due (whether at maturity or otherwise) and (d) such Credit Party is “solvent” within the meaning given to that term and similar terms under applicable law relating to liquidation, administration, conservatorship, bankruptcy, insolvency, assignment for the benefit of creditors, moratorium, receivership, winding-up, dissolution, reorganization, restructuring, recapitalization, arrangement or rearrangement, or other similar debtor relief law from time to time in effect, including without limitation the *Bankruptcy and Insolvency Act* (Canada), the CCAA, the *Canada Business Corporations Act* (Canada), the *Corporations Act 2001* (Cth), the *Bankruptcy Act 1966* (Cth) and the Bankruptcy Code and applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under GAAP).

“Stated Expiry Date” shall mean, unless extended to a later date in the sole, unfettered discretion of Lender following a written request by Borrower (and subject to an extension fee), February 12, 2025.

“Subsidiary” shall mean, with respect to any Person: (i) any corporation of which an aggregate of more than 50% of the outstanding Shares having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Shares of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person and/or one or more Subsidiaries of such Person, or with respect to which any such Person has the right to vote or designate the vote of 50% or more of such Shares whether by proxy, agreement, operation of law or otherwise; and (ii) any partnership or limited liability company in which such Person or one or more Subsidiaries of such Person has an equity interest (whether in the form of voting or participation in profits or capital contribution) of more than 50% or of which any such Person is a general partner or manager or may exercise the powers of a general partner or manager.

“Taxes” shall mean any and all present or future taxes, duties, levies, imposts, deductions, Charges withholdings, value added taxes, or any other goods and services, use or sales taxes, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax, penalties or other liabilities with respect thereto, but excluding taxes imposed on or measured by the net income of Lender.

“Term CORRA” means, for any calculation with respect to a Term CORRA Loan, the Term CORRA Reference Rate for a tenor comparable to the applicable Interest Period on the day (such day, the **“Periodic Term CORRA Determination Day”**) that is two (2) Business Days prior to the first day of such Interest Period, as such rate is published by the Term CORRA Administrator; provided, however, that if as of 1:00 p.m. (Toronto time) on any Periodic Term CORRA Determination Day the Term CORRA Reference Rate for the applicable tenor has not been published by the Term CORRA Administrator and a Canadian Benchmark Replacement Date with respect to the Term CORRA Reference Rate has not occurred, then Term CORRA will be the Term CORRA Reference Rate for such tenor as published by the Term CORRA Administrator on the first preceding Business Day for which such Term CORRA Reference Rate for such

tenor was published by the Term CORRA Administrator so long as such first preceding Business Day is not more than three (3) Business Days prior to such Periodic Term CORRA Determination Day.

"Term CORRA Adjustment" means, with respect to Term CORRA, for an Interest Period of a duration of (a) one-month a percentage equal to 0.29547% per annum (29.547 basis points), and (b) a percentage equal to three-months, 0.32138 % per annum (32.138 basis points).

"Term CORRA Administrator" means Candéal Benchmark Administration Services Inc., TSX Inc., or any successor administrator.

"Term CORRA Loan" means a Loan made pursuant to Section 1.1 that bears interest at a rate based on Adjusted Term CORRA other than pursuant to clause (ii) of the definition of RBP.

"Term CORRA Reference Rate" means the forward-looking term rate based on CORRA.

"Term SOFR Administrator" means CME Group Benchmark Administration Limited (CBA) (or a successor administrator of the Term SOFR Reference Rate selected by the Lender in its reasonable discretion).

"Term SOFR Adjustment" shall mean, with respect to Term SOFR, 0.10% (10 basis points) for an Interest Period of one-month's duration and 0.15% (15 basis points) for an Interest Period of three-month's duration.

"Term SOFR Determination Day" has the meaning assigned to it under the definition of Term SOFR Rate.

"Term SOFR Loan" means a Loan that bears interest at a rate based on Adjusted Term SOFR, other than pursuant to clause (iii) of the definition of "RBUSBR".

"Term SOFR Rate" means, for any Interest Period for a Term SOFR Loan, the greater of (a) the Term SOFR Reference Rate (rounded upward to the next one-sixteenth (1/16th) of one percent (0.0625%), if necessary) for a tenor comparable to the applicable Interest Period on the day (the **"Term SOFR Determination Day"**) that is two (2) U.S. Government Securities Business Days prior to the first day of such Interest Period, as such rate is published by the Term SOFR Administrator and (b) the Floor; provided, however, that if as of 5:00 p.m. (New York City time) on any Term SOFR Determination Day the Term SOFR Reference Rate for the applicable tenor has not been published by the Term SOFR Administrator and a Benchmark Replacement Date with respect to the Term SOFR Reference Rate has not occurred, then Term SOFR will be the Term SOFR Reference Rate for such tenor as published by the Term SOFR Administrator on the first preceding U.S. Government Securities Business Day for which such Term SOFR Reference Rate for such tenor was published by the Term SOFR Administrator so long as such first preceding U.S. Government Securities Business Day is not more than three (3) U.S. Government Securities Business Days prior to such Term SOFR Determination Day.

"Term SOFR Reference Rate" means the forward-looking term rate based on SOFR.

"Termination Date" shall mean the date on which the indefeasible payment in full of the Obligations has occurred and Lender has no further obligation to advance funds, issue Letters of Credit or otherwise extend or continue any credit hereunder (whether due to the Stated Expiry Date or otherwise pursuant to the terms hereof).

"Total Interest Expense" means, with respect to any Person for any period, without duplication, the aggregate amount of interest and other financing charges expensed by such Person on account of such period with respect to Funded Debt including interest, discount financing fees, commissions, discounts, the interest or time value of money component of costs related to factoring or securitizing receivables or monetizing inventory and other fees and charges payable with respect to letters of credit, letters of guarantee and bankers' acceptance financing, standby fees, the interest component of Capital Leases and net payments (if any) pursuant to hedge arrangements involving interest, but excluding any amount, such as amortization of debt discount and expenses, that would qualify as Depreciation Expense and the amount reflected in Net Income for such period in respect of gains (or losses) attributable to translation of Funded

Debt from one currency to another currency, all as determined on a consolidated basis in accordance with Applicable Accounting Standards

"Trademark License" shall mean rights under any written agreement now owned or hereafter acquired by any Person granting any right to use any Trademark or Trademark registration.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Person: (i) all trademarks, trade names, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including all registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, Canada, any Province, State or Territory thereof, or any other country or any political subdivision thereof; and (ii) all reissues, extensions or renewals thereof.

"UCC" shall mean the Uniform Commercial Code as in effect from time to time in the State of New York; *provided that*, if perfection or the effect of perfection or non-perfection or the priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, **"UCC"** means the Uniform Commercial Code as in effect from time to time in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority.

"Unadjusted Canadian Benchmark Replacement" means the applicable Canadian Benchmark Replacement excluding the related Canadian Benchmark Replacement Adjustment.

"Unfunded Capital Expenditures" means the amount of all Capital Expenditures of the Borrower and its Subsidiaries for the immediately preceding twelve month period, less any Capital Expenditures during such twelve month period that are funded by cash reserves identified by the Borrower for such purpose from the incurrence of Funded Debt (other than advances under this Agreement but, for certainty, including the Convertible Debentures) or the issuance of Shares in the immediately prior twenty four month period.

"United States" and **"U.S."** mean the United States of America.

"Unused Line Fee" shall have the meaning assigned to it in Schedule E.

"U.S. Dollars" or **"U.S.\$"** shall mean the lawful currency of the United States of America.

"U.S. Government Securities Business Day" means any day except for (i) a Saturday, (ii) a Sunday or (iii) a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

"U.S. Security Agreement" means that certain Security Agreement, dated as of February 12, 2021, by and among the U.S. Borrower, the Canadian Borrower and the Lender.

"US Borrower" means DIRTT Environmental Solutions, Inc., a corporation organized under the laws of the State of Colorado, together with its successors and assigns.

"Visa Facility" shall have the meaning assigned to it in Schedule H.

"Visa Facility Agreements" shall have the meaning assigned to it in Schedule H.

"Visa Limit" shall have the meaning assigned to it in Schedule H.

"Visa Reserve" shall have the meaning assigned to it in Schedule H.

“Withdrawal Liability” shall mean liability to a Multi-employer Plan as a result of a complete or partial withdrawal from such Multi-employer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

Any accounting term used in this Agreement or the other Loan Documents shall have, unless otherwise specifically provided therein, the meaning customarily given such term in accordance with GAAP, and all financial computations thereunder shall be computed, unless otherwise specifically provided therein, in accordance with GAAP consistently applied; provided, that all financial covenants and calculations in the Loan Documents shall be made in accordance with GAAP as in effect on the Closing Date unless Borrower and Lender shall otherwise specifically agree in writing. That certain items or computations are explicitly modified by the phrase “in accordance with GAAP” shall in no way be construed to limit the foregoing. All other undefined terms contained in this Agreement or the other Loan Documents shall, unless the context indicates otherwise, have the meanings provided for by the PPSA with respect to property in Canada, and the UCC with respect to property located in the United States. The words “herein,” “hereof” and “hereunder” or other words of similar import refer to this Agreement as a whole, including the exhibits and schedules thereto, as the same may from time to time be amended, modified or supplemented, and not to any particular section, subsection or clause contained in this Agreement.

For purposes of this Agreement and the other Loan Documents, the following additional rules of construction shall apply, unless specifically indicated to the contrary: (a) wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural; (b) the term “or” is not exclusive; (c) the term “including” (or any form thereof) shall not be limiting or exclusive; (d) all references to statutes, acts and related regulations shall include any amendments of same and any successor statutes and regulations; (e) all references to any instruments or agreements, including references to any of the Loan Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof; (f) the specification of any Lien as a Permitted Encumbrance shall not constitute any postponement or subordination (or agreement to do so) of Lender’s Liens; and (g) all references to “\$” dollars or amounts of currency shall unless otherwise expressly provided mean lawful currency of Canada.

The Lender does not warrant or accept any responsibility for, and shall not have any liability with respect to, (a) the continuation of, the administration of, submission of, calculation of, performance of or any other matter related to any interest rate used in this Agreement (including, without limitation, the Term SOFR Rate) or any component definition thereof or rates referred to in the definition thereof, or with respect to any alternative or successor rate thereto, or replacement rate thereof (including any Benchmark Replacement), *including without limitation*, whether the composition or characteristics of any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, or have the same value or economic equivalence of the existing interest rate (or any component thereof) being replaced or have the same volume or liquidity as did any existing interest rate (or any component thereof) prior to its discontinuance or unavailability. The Lender and its affiliates and/or other related entities may engage in transactions that affect the calculation of any interest rate (or component thereof) used in this Agreement or any alternative, successor or alternative rate (including any Benchmark Replacement) and/or any relevant adjustments thereto, in each case, in a manner adverse to the Borrower. The Lender may select information sources or services in its reasonable discretion to ascertain any interest rate used in this Agreement, any component thereof, or rates referred to in the definition thereof, in each case pursuant to the terms of this Agreement, and shall have no liability to the Borrower or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

The Credit Parties confirm and agree that for purposes of any Collateral located in the Province of Quebec or charged by any deed of hypothec (or any other Loan Document) and for all other purposes pursuant to which the interpretation or construction of a Loan Document may be subject to the laws of the Province of Quebec or a court or tribunal exercising jurisdiction in the Province of Québec: (a) “personal property” shall be deemed to include “movable property”; (b) “real property” shall be deemed to include “immovable property”; (c) “tangible property” shall be deemed to include “corporeal property”; (d) “intangible property”

shall be deemed to include "incorporeal property"; (e) "security interest" and "mortgage" shall be deemed to include a "hypothec"; (f) all references to filing, registering or recording under the UCC or the PPSA shall be deemed to include publication under the Civil Code of Québec; (g) all references to "perfection" of or "perfected" Liens shall be deemed to include a reference to the "opposability" of such Liens to third parties; (h) any "right of offset", "right of setoff" or similar expression shall be deemed to include a "right of compensation"; (i) "goods" shall be deemed to include "corporeal movable property" other than chattel paper, documents of title, instruments, money and securities; and (j) an "agent" shall be deemed to include a "mandatary".

SCHEDULE B

LENDER'S AND BORROWER'S ADDRESSES FOR NOTICES

Lender's Address:

200 Bay Street
Royal Bank Plaza
13th Floor, South Tower
Toronto, Ontario
M5J 2J5

Attention: Portfolio Manager
E-MAIL: [***]

Lender's Address for Borrowing Notices:

20 King Street West, 4th Floor
Toronto, Ontario
M5H 1C4

Attention: Operations, Asset Based Lending Group

Borrowers Address:

7303 30th Street SE
Calgary, Alberta
T2C 1N6
Attention: Chief Financial Officer
Facsimile No.: 403-723-5000

With Copies to:

Bennett Jones LLP
4500, 855 – 2nd Street SW
Calgary, Alberta
T2P 4K7
Attention: Denise Bright
E-MAIL: [***]

SCHEDULE C

LETTERS OF CREDIT

1. Lender agrees, subject to the terms and conditions hereinafter set forth, to incur Letter of Credit Obligations in respect of the issuance of Letters of Credit issued on terms acceptable to Lender and supporting obligations of a Borrower incurred in the ordinary course of such Borrower's business, in order to support the payment of such Borrower's inventory purchase obligations, capital asset acquisitions, insurance premiums, or utility or other operating expenses or to support a Borrower's obligations under a contract for performance and obligations, and, in the case of any letters of guarantee, for such purposes as Lender may agree in its sole discretion, as Borrower shall request by written notice to Lender that is received by Lender not less than five (5) Business Days prior to the requested date of issuance of any such Letter of Credit; provided, that: (a) the aggregate amount of all Letter of Credit Obligations at any one time outstanding (whether or not then due and payable) shall not exceed the Letter of Credit Sublimit; (b) no Letter of Credit shall have an expiry date which is later than the Stated Expiry Date or one year following the date of issuance thereof unless otherwise agreed by the Lender; (c) all letters of guarantee shall be and shall be continued in the sole discretion of Lender; and (d) Lender shall be under no obligation to incur any Letter of Credit Obligation if after giving effect to the incurrence of such Letter of Credit Obligation, the Net Borrowing Availability would be less than zero. A Borrower will enter into an application and agreement for each such Letter of Credit.
2. The notice to be provided to Lender requesting that Lender incur Letter of Credit Obligations shall be in the form of a Letter of Credit application in the form customarily employed by Lender, together with a written request by Borrower.
3. In the event that Lender shall make any payment on or pursuant to any Letter of Credit Obligation, Borrowers shall be unconditionally obligated to reimburse Lender therefor, and such payment shall then be deemed to constitute a Revolving Credit Advance. For purposes of computing interest under Section 1.5, a Revolving Credit Advance made in satisfaction of a Letter of Credit Obligation shall be deemed to have been made as of the date on which Lender makes the related payment under the underlying Letter of Credit. Each Borrower hereby irrevocably authorizes Lender to debit the respective Canadian or any other bank account (including any deposit, disbursement or operating account) of the Borrowers for the purpose of paying all amounts due by the Borrowers from time to time for each drawing under any Letter of Credit, including all charges and fees pursuant to such issuance or amendment.
4. In the event that any Letter of Credit Obligations, whether or not then due or payable, shall for any reason be outstanding on the Commitment Termination Date, Borrowers will either: (a) cause the underlying Letter of Credit to be returned and cancelled and each corresponding Letter of Credit Obligation to be terminated; or (b) pay to Lender, in immediately available funds, an amount equal to 110% of the maximum amount then available to be drawn under all Letters of Credit not so returned and cancelled to be held by Lender as cash collateral in an account under the exclusive dominion and control of Lender (the "**Cash Collateral Account**").
5. In the event that Lender shall incur any Letter of Credit Obligations, Borrowers agree to pay the Letter of Credit Fee to Lender as compensation to Lender for incurring such Letter of Credit Obligations.
6. Borrowers' Obligations to Lender with respect to any Letter of Credit or Letter of Credit Obligation shall be evidenced by Lender's records and shall be absolute, unconditional and irrevocable and shall not be affected, modified or impaired by: (a) any lack of validity or enforceability of the transactions contemplated by or related to such Letter of Credit or Letter of Credit Obligation; (b) any amendment or waiver of or consent to depart from all or any of the terms of the transactions contemplated by or related to such Letter of Credit or Letter of Credit Obligation; (c) the existence of any claim, set-off, defense or other right which Borrower or any other Credit Party may have against Lender or the beneficiary of such Letter of Credit, or any other Person, whether in

connection with this Agreement, any other Loan Document or such Letter of Credit or the transactions contemplated thereby or any unrelated transactions; or (d) the fact that any draft, affidavit, letter, certificate, invoice, bill of lading or other document presented under or delivered in connection with such Letter of Credit or any other Letter of Credit proves to have been forged, fraudulent, invalid or insufficient in any respect or any statement therein proves to have been untrue or incorrect in any respect.

7. In addition to any other indemnity obligations which Borrowers may have to Lender under this Agreement and without limiting such other indemnification provisions, each Borrower hereby jointly and severally agrees to indemnify Lender from and to hold Lender harmless against any and all claims, liabilities, losses, costs and expenses (including, legal fees and expenses) which Lender may (other than as a result of its own gross negligence or wilful misconduct) incur or be subject to as a consequence, directly or indirectly, of: (a) the issuance of or payment of or failure to pay under any Letter of Credit or Letter of Credit Obligation; or (b) any suit, investigation or proceeding as to which Lender is or may become a party as a consequence, directly or indirectly, of the issuance of any Letter of Credit, the incurring of any Letter of Credit Obligation or any payment of or failure to pay under any Letter of Credit or Letter of Credit Obligation provided that the Borrowers shall have no obligation to indemnify the Lender if the Lender makes payment in violation of the terms and conditions set forth in the Letter of Credit. The obligations of each Borrower under this paragraph shall survive any termination of this Agreement and the payment in full of the Obligations.
8. Each Borrower hereby assumes all risks of the acts, omissions or misuse of each Letter of Credit by the beneficiary thereof and, in connection therewith, Lender shall not be responsible for: (a) the validity, sufficiency, genuineness or legal effect of any document submitted in connection with any drawing under any Letter of Credit even if it should in fact prove in any respect to be invalid, insufficient, inaccurate, untrue, fraudulent or forged; (b) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or any rights or benefits thereunder or any proceeds thereof, in whole or in part, even if it should prove to be invalid or ineffective for any reason; (c) the failure of any beneficiary of any Letter of Credit to comply fully with the terms thereof, including the conditions required in order to effect or pay a drawing thereunder; (d) any errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, telecopy, telex or otherwise; (e) any loss or delay in the transmission or otherwise of any document or draft required in order to make a drawing under any Letter of Credit; or (f) any consequences arising from causes beyond the direct control of Lender.

SCHEDULE D

CASH MANAGEMENT SYSTEM

Each Borrower agrees to establish, and to maintain, until the Termination Date, the cash management system described below (subject to the post-closing covenant regarding accounts as set forth in Section 3.24):

1. No Credit Party: (i) shall (nor shall it permit any of its Subsidiaries to) open or maintain any deposit, chequing, operating or other bank account, or similar money handling account, with any bank or other financial institution except at Lender or as permitted by Lender in its sole discretion and as identified in Attachment 1 hereto; and (ii) shall close or permit to be closed any of the accounts identified in Attachment 1 without Lender's prior written consent, and then only after such Credit Party has implemented agreements with Lender or bank or financial institution acceptable to Lender.
2. Attachment 1 is a complete list of all accounts currently held by the Borrowers and Guarantors.
3. Commencing on the Closing Date and until the Termination Date, all monies (which term when used in this Agreement includes all cheques, bills of exchange and other payment instruments as well as cash) received by the Borrowers, including, but not limited to, any receipts in payment of any Accounts or in respect of any insurance proceeds, whether or not a notice and direction has been sent to the Borrowers' Account Debtors, shall be received and held, and shall be deemed to be received and held, in trust for Lender and shall be, and shall be deemed to be, kept separate and apart from the Borrowers' own funds and immediately deposited or transferred by it on a daily basis in one or more blocked accounts set up for this purpose and listed in Attachment 1 hereto (collectively, the "**Blocked Accounts**").
4. The Borrowers shall execute and deliver to Lender, Lender's standard form Blocked Accounts agreement ("**Blocked Accounts Agreement**"), the receipt of which is a condition precedent to any accommodation of credit hereunder. During a Cash Dominion Period, Lender is hereby irrevocably and unconditionally authorised and directed by Borrower, in Lender's discretion, to sweep the Blocked Accounts on a daily basis and to set-off, compensate and apply any credit balances in the Blocked Accounts (after conversion into Canadian Dollars or U.S. Dollars, as applicable, as determined necessary by Lender) to repay any Obligations in such order as Lender sees fit or to be held by Lender as cash collateral, with any remaining funds then being deposited to the Borrowers' disbursement accounts with Lender.
5. Where the perfection of the security interest of Lender in any Account or deposit in any Account, is governed by the UCC, and such account is identified as "Blocked" on Attachment 1, such Borrower shall ensure that at all times Lender has "control" of such Accounts or deposits in accounts under the UCC pursuant to the applicable Blocked Accounts Agreement.
6. Each Borrower may maintain, in its name, accounts (the "**Disbursement Accounts**") at Lender or at an Affiliate of Lender acceptable to Lender into which Lender shall, from time to time, deposit proceeds of Revolving Credit Advances made pursuant to Section 1.1 for use solely in accordance with the provisions of Section 1.3. All of the Disbursement Accounts as of the Closing Date are listed in Attachment 1 hereto.
7. Upon the request of Lender following a Cash Dominion Period, each Credit Party shall forward to Lender, on a daily basis, evidence of the deposit or transfer of all items of payment received by such Credit Party into the Blocked Accounts and copies of all such cheques and other items, together with a statement showing the application of those items relating to payments on Accounts to outstanding Accounts and a collection report with regard thereto in form and substance satisfactory to Lender.

ATTACHMENT 1 TO SCHEDULE D

LIST OF BANK ACCOUNTS

Bank	Bank Address	Account Name	Account #	Transit/ Routing #	Currency	Account Type
Royal Bank of Canada	Main Branch - Calgary 339 8th Ave SW Calgary, AB T2P 1C4	DIRTT Environmental Solutions Ltd.	[***]	[***]	CDN	[***]
Royal Bank of Canada	Main Branch - Calgary 339 8th Ave SW Calgary, AB T2P 1C4	DIRTT Environmental Solutions Ltd.	[***]	[***]	USD	[***]
Royal Bank of Canada	Main Branch - Calgary 339 8th Ave SW Calgary, AB T2P 1C4	DIRTT Environmental Solutions Ltd.	[***]	[***]	CDN	[***]
Royal Bank of Canada	Main Branch - Calgary 339 8th Ave SW Calgary, AB T2P 1C4	DIRTT Environmental Solutions Ltd.	[***]	[***]	USD	[***]
City National Bank	555 S. Flower St. Los Angeles, CA 90071	DIRTT Environmental Solutions, Inc.	[***]	[***]	USD	[***]
City National Bank	555 S. Flower St. Los Angeles, CA 90071	DIRTT Environmental Solutions, Inc.	[***]	[***]	USD	[***]
City National Bank	555 S. Flower St. Los Angeles, CA 90071	DIRTT Environmental Solutions, Inc.	[***]	[***]	USD	[***]
City National Bank	555 S. Flower St.	DIRTT Environmental Solutions, Inc.	[***]	[***]	USD	[***]

	Los Angeles, CA 90071					
Royal Bank of Canada	Main Branch - Calgary 339 8th Ave SW Calgary, AB T2P 1C4	DIRTT Environmental Solutions Ltd.	[**]	[**]	CAD	[**]

SCHEDULE E

FEES

- Unused Line Fee:** For each day from the Closing Date, and through and including the Commitment Termination Date, the Borrowers, jointly and severally, shall pay to Lender an amount equal to the Maximum Amount less the aggregate of: (a) the aggregate amount of Revolving Credit Advances outstanding at the end of each day; and (b) the total Letter of Credit Obligations incurred by Lender and outstanding at the end of each day, multiplied by 0.40% and divided by 365 or 366, as applicable, depending on the actual number of days in the year in respect of the period for which the Unused Line Fee is payable. The Unused Line Fee for each month (except for the month in which the Commitment Termination Date occurs) is payable in arrears on the first day of each calendar month following the Closing Date; the final monthly instalment of the Unused Line Fee is payable on the Commitment Termination Date. Notwithstanding the foregoing, any unpaid Unused Line Fee is immediately due and payable on the Commitment Termination Date.
- Letter of Credit Fee:** For each day for which Lender maintains Letter of Credit Obligations outstanding, an amount equal to the amount of the Letter of Credit Obligations outstanding on such day, multiplied by a percentage to be determined at the time of issuance. The Letter of Credit Fee is payable quarterly in advance and any out of pocket fees incurred by Lender with respect to a Letter of Credit are payable on the date of issue of such Letter of Credit. Notwithstanding the foregoing, any unpaid Letter of Credit Fee is immediately due and payable on the Commitment Termination Date.
- Closing Fee:** A fully earned non-refundable closing fee of \$75,000.
- Collateral Monitoring Fee:** A fully earned and non-refundable collateral monitoring fee of \$1,000 per month, payable in advance beginning on the Closing Date and on the first day of each month thereafter.
- Field Examination Fees:** Borrower will reimburse Lender for Lender's standard charges in respect of audit reviews, field examinations and collateral examinations, including the standard charges of the Lender's internal field examination group (currently \$1,200 per person per day), and all reasonable out of pocket expenses incurred in connection therewith and applicable taxes. This shall not be construed to limit Lender's right to use third parties for such purposes.
- Appraisal Fees:** Borrower will reimburse Lender for all out of pocket expenses incurred by Lender in connection with the appraisals of Inventory conducted for Lender by an appraisal firm acceptable to Lender.
- Miscellaneous Fees:** Borrower shall be liable for all of Lender's customary miscellaneous fees for activities undertaken by Lender, including additional uploads, amendments, waivers and other matters.

SCHEDULE F

SCHEDULE OF DOCUMENTS

The obligation of Lender to make the initial Revolving Credit Advances and extend other credit is subject to satisfaction of the condition precedent that Lender shall have received the following, each, unless otherwise specified below or the context otherwise requires, dated the Closing Date, in form and substance satisfactory to Lender and its counsel:

PRINCIPAL LOAN DOCUMENTS

1. Loan Agreement. The Loan Agreement duly executed by Borrower and the other Credit Parties party thereto.
2. Borrowing Base Certificate. An original Borrowing Base Certificate duly executed by an Authorized Officer of Borrower.
3. Notice of Borrowing. An original Notice of Borrowing duly executed by an Authorized Officer of Borrower.

COLLATERAL DOCUMENTS

1. Acknowledgement Copies of Financing Statements. Acknowledgement copies of proper financing statements and notices of recording under the PPSA, the applicable UCC and Civil Code of Quebec, as applicable, duly filed in all jurisdictions as may be necessary or, in the opinion of Lender, desirable to perfect Lender's Lien on the Collateral in which a security interest may be perfected by filing a financing statement or a notice of recording, as applicable, pursuant to the PPSA, the UCC or the Civil Code of Quebec, as applicable.
2. Searches. Certified copies of PPSA, UCC, and as applicable, Register of Personal and Movable Real Rights of Quebec, Bank Act, insolvency, executions, litigation, or other jurisdictional searches, as applicable, or other evidence satisfactory to Lender, listing all effective, registrations, financing statements and recordations which name the Credit Parties (under present name, any previous name or any trade or doing business name) as debtor and together with copies of such other recordings, registrations and financing statements.
3. GSAs/Hypothecs/Bank Act Security/US Security Agreement. General security agreements and hypothecs of moveable property from each Credit Party granting a first priority Lien, subject to Permitted Encumbrances, in favour of Lender, in form and substance satisfactory to Lender in its sole, unfettered discretion (but not contradicting the terms hereof). Each Borrower shall also grant security to Lender under section 427 of the Bank Act (Canada) in form and substance satisfactory to Lender. The U.S. Borrower shall execute and deliver to Lender the U.S. Security Agreement.
4. Mortgage. Subject to Section 3.25, Mortgage, security agreement, financing statement, fixture filing and assignment of rents to be granted by the US Borrower in favour of the Lender with respect to the property known municipally as 325 North Wells St. Unit 1000 Chicago, Illinois Cook County, with a Tax Parcel No. 17-09-405-007-1002.
5. Guarantee. A guarantee agreement executed by each Borrower and each of the Guarantors in favour of Lender whereby such Credit Parties guarantee all of the Obligations of the other Credit Parties.
6. Intellectual Property Documents. Agreements relating to the granting to Lender of a security interest in Intellectual Property of Borrower to the extent applicable in a form suitable for filing with the appropriate federal filing office.

7. Other Recordings and Filings. Evidence of the completion of all other recordings and filings (including termination statements and other Lien release documentation) as may be necessary or, in the opinion of and at the request of Lender, desirable to perfect Lender's Lien on the Collateral and ensure such Collateral is free and clear of other Liens (except Permitted Encumbrances).

THIRD PARTY AGREEMENTS

1. Landlord and Mortgagee Consents. Unless otherwise agreed to in writing by Lender, duly executed landlord, bailee and mortgagee waivers and consents from the landlords, bailees and mortgagees of all of Borrower's leased or owned locations where Collateral is held, in each case, in form and substance satisfactory to Lender.
2. Cash Management System. Duly executed Blocked Accounts Agreement as contemplated by Schedule D.
3. Subordination Agreements. The subordination agreement executed by Upper Canada Forest Products Ltd. in favour of the Lender.

OTHER DOCUMENTS

1. Environmental Audit. Lender's standard form environmental questionnaire and copies of all existing environmental reviews and audits and other information pertaining to actual or potential environmental claims relating to the Collateral and the Credit Parties, as Lender may require.
2. Insurance Policies. Originals or copies of certificates of insurance described in Section 3.16, together with evidence showing loss payable or additional insured clauses or endorsements in favour of Lender.
3. Existing Lease Agreements. Copies of any existing real property leases and equipment leases to which Borrower is a party and any other document or instrument evidencing or relating to existing Indebtedness of Borrower, together with all certificates, opinions, instruments, security documents and other documents relating thereto, all of which shall be satisfactory in form and substance to Lender, certified by an Authorized Officer of Borrower as true, correct and complete copies thereof.

SCHEDULE G
MATERIAL CONTRACTS

DIRTT Environmental Solutions Ltd.

1. Lease between PIRET (7303-30th STREET SE) HOLDINGS INC. and DIRTT Environmental Solutions Ltd. dated September 15, 2012, as amended by a lease amending agreement dated April 6, 2022
2. Lease between Dream Industrial Twofer (GP) Inc. (formerly known as Dundee Industrial Twofer (GP) Inc.) and DIRTT Environmental Solutions Ltd. dated November 5, 2013, as amended by a lease amending agreement dated October 21, 2016, and a lease amending agreement dated February 14, 2022
3. Lease between HOOPP REALTY INC./LES IMMEUBLES HOOPP INC., by its duly authorized agent, Triovest Realty Advisors Inc., and DIRTT Environmental Solutions Ltd. dated February 12, 2015, as amended by a lease amending agreement dated April 16, 2015, a lease modification agreement dated October 27, 2015, a lease amending agreement dated November 12, 2015, a lease amending agreement dated January 8, 2016, a lease amending agreement dated August 9, 2019, and a lease amending agreement dated February 6, 2023
4. Master Lease Agreement between Royal Bank of Canada and DIRTT Environmental Solutions Ltd., dated May 4, 2020
5. Convertible unsecured subordinated note indenture dated January 25, 2021 between the Canadian Borrower, Computershare Trust Company of Canada and Computershare Trust Company, N.A., as amended, supplemented and modified from time to time.

DIRTT Environmental Solutions, Inc.

6. Lease between EastGroup Properties, L.P. and DIRTT Environmental Solutions, Inc. dated March 29, 2011, and as amended by a lease amending agreement dated September 30, 2021
7. Lease between GFP Alliance Phoenix, LLC (successor in interest to Majik Ventures, L.L.C and CAM Investment 352 LLC) and DIRTT Environmental Solutions, Inc. dated July 1, 2015, as amended by a first amendment to lease dated May 11, 2017
8. Lease between SH7-Savannah, LLC (successor in interest to 141 Knowlton Way, LLC) and DIRTT Environmental Solutions, Inc. dated October 2, 2008, as amended by a first amendment to industrial lease agreement dated March 11, 2009, and a second amendment to industrial lease agreement dated August 23, 2018
9. Lease between Tennyson Campus Owner, LP and DIRTT Environmental Solutions, Inc. dated March 4, 2020, as amended by a first amendment to lease dated May 8, 2020, and as amended by a second amendment to lease dated November 1, 2021
10. Lease between STAG Industrial Holdings, LLC (successor in interest to SP Rock Hill Legacy East #1, LLC) and DIRTT Environmental Solutions, Inc. dated October 7, 2019, as amended by a first amendment to lease dated December 2, 2019, a second amendment to lease dated July 6, 2020, and a notice of conveyance of lease dated November 12, 2020

SCHEDULE H
BANK PRODUCTS

A. Visa Facility

Provided that Lender will make a corporate visa credit card facility (the “**Visa Facility**”) available to Borrowers in such amounts as agreed to in writing by Lender in its sole and absolute discretion (the “**Visa Limit**”), subject to the following terms and conditions:

- (a) notwithstanding any other provision of this Agreement, the Visa Facility is payable on demand and Lender may cancel or restrict the availability of the Visa Facility, or any unutilized portion thereof, at any time in its sole and absolute discretion. The Visa Limit may be reserved, dollar for dollar, from the Borrowing Availability (the “**Visa Reserve**”);
- (b) the Visa Facility will be governed by separate agreements entered into between the applicable Borrower and Lender (collectively, the “**Visa Facility Agreements**”) and, in the event of a conflict between the terms and conditions of this Agreement and the Visa Facility Agreements, the terms and conditions of the Visa Facility Agreements will govern and prevail to the extent of such conflict; and
- (c) the Visa Facility shall form part of the Obligations secured by all of Lender’s security.

B. Foreign Exchange Facility

Provided that no Event of Default has occurred, Lender may at its sole option and discretion, upon a Borrower’s written request, enter into foreign exchange transactions, agreements or options (“**Fx Contracts**”) with such Borrower from time to time on terms and conditions to be negotiated on a transaction-by-transaction basis (the “**Fx Facility**”). Lender makes no commitment to enter into or arrange any Fx Contracts with a Borrower and may at any time, in its sole and absolute discretion, decline to enter into or terminate any Fx Contracts. In the event that a Borrower requests, and Lender agrees, to enter into any such Fx Contracts with such Borrower, it will do so subject to the following:

- (d) in no event, shall the “credit exposure” of the Fx Facility, as determined by Lender from time to time in its discretion, exceed such amounts as agreed to in writing by Lender in its sole and absolute discretion. Such Fx “credit exposure” may be reserved, dollar for dollar, from the Borrowing Availability (the “**Fx Reserve**”);
- (e) the applicable Borrower shall promptly issue or countersign and return a confirmation or acknowledgement of the terms of each such Fx Contract as required by Lender;
- (f) the applicable Borrower shall, if required by Lender, promptly enter into a Foreign Exchange and Options Master Agreement or such other agreement, in form and substance satisfactory to Lender, to govern such Fx Contracts;
- (g) in the event of demand for payment concerning any Fx Contracts, Lender may terminate all or any other Fx Contracts at its sole option and discretion. If the agreement governing any such Fx Contracts does not contain provisions governing termination, any such termination shall be effected in accordance with customary market practice applied by Lender from time to time. Lender’s determination of amounts owing under any terminated Fx Contracts shall be conclusive evidence of the amounts owing thereunder, absent manifest error;
- (h) Lender shall apply any amount owing by Lender to the applicable Borrower on termination of any such Fx Contracts against the applicable Borrower’s obligations to

Lender and any amount owing by such Borrower to Lender on such termination shall form part of the Obligations secured by all of Lender's security;

- (i) the applicable Borrower shall pay all required fees in connection with any such Fx Contracts and both Borrowers jointly and severally indemnify and hold Lender harmless from and against any and all losses, costs and expenses incurred by Lender in relation to any Fx Contracts, including, without limitation, the costs of terminating or cancelling any Fx Contracts;
- (j) any rights of Lender in respect of any such Fx Contracts are in addition to and not in limitation of, or substitution for, any rights of Lender under any agreement governing such Fx Contracts. In the event that there is any inconsistency at any time between the terms hereof and any agreement governing such Fx Contracts, the terms of such agreement governing such Fx Contracts shall prevail to the extent of such inconsistency; and
- (k) each Borrower hereby covenants and agrees to report the outstanding amounts of any and all Fx Contracts to Lender in its Borrowing Base Certificate required to be delivered to Lender on a weekly basis.

SCHEDULE I

RBC LEASE FACILITY

1. The master lease agreement between the Canadian Borrower and the Lender dated May 4, 2020, as the same may be amended, modified, varied, restated or replaced from time to time.

SCHEDULE J

POST-CLOSING UNDERTAKINGS

1. On or before February 26, 2021 (or such later date as the Lender may agree to in writing in its sole discretion), the Lender shall have received the following in form an substance reasonably satisfactory to the Lender:
 - a. Mortgage, security agreement, financing statement, fixture fling and assignment of rents granted by the US Borrower in favour of the Lender with respect to the property known municipally as 325 North Wells St. Unit 1000 Chicago, Illinois Cook County, with a Tax Parcel No. 17-09-405-007-1002 (the "**Mortgaged Property**");
 - b. fully-paid valid title insurance with endorsements and in amounts reasonably acceptable to the Lender, insuring that the Lender shall have a perfected first priority Lien on the Mortgaged Property;
 - c. Opinion of Illinois counsel to the US Borrower in respect of the mortgaged on the Mortgaged Property

EXHIBIT A

FORM OF NOTICE OF BORROWING OR CONTINUATION/CONVERSION

(Letter to be typed on a Borrower's Letterhead)

[DATE]

Royal Bank of Canada
20 King Street West, 4th Floor
Toronto, Ontario M5H 1C4
Attention: Operations Group
FAX: [***]
E-MAIL: [***]

cc:
Attention: Portfolio Manager
E-MAIL: [***]

BORROWING NOTICE

We refer to the loan agreement dated as of February 12, 2021 (as amended, restated, supplemented, replaced or otherwise modified from time to time, the "**Agreement**"; capitalized terms used herein but not otherwise defined shall have the meanings set forth in the Loan Agreement), DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc. (each a "**Borrower**", and collectively the "**Borrowers**"), each other Credit Party executing same and Royal Bank of Canada ("**Lender**").

We hereby instruct and authorize Lender to **[make advances] [continue/ convert an outstanding loan]** to our disbursement account(s), subject to and in accordance with the terms and provisions of the Agreement to the account numbers specified below and to charge the Borrowers' loan account with each such **[advance(s)] [continuation(s)/ conversion(s)]**.

The Borrower hereby requests **[an advance] [the continuation/ conversion of an outstanding loan]** (the "**Advance**") be made as follows:

A. Date of Advance: _____

B. Type/ amount of Advance to be made:

RBP based Advance (CAD\$): _____

RBUSBR based Advance (U.S.\$): _____

Adjusted Term CORRA based Advance (CAD\$): _____

Term SOFR Rate based Advance (U.S.\$): _____

C. [Type of Advance resulting from the conversion or continuation (if applicable):

RBP based Advance (CAD\$): _____

RBUSBR based Advance (U.S.\$): _____

Adjusted Term CORRA based Advance (CAD\$): _____

Term SOFR Loan (U.S.\$): _____]

D. Proceeds of the Advance are to be directed as follows:

CAD\$ # _____

U.S.\$ # _____

E. Duration of the Interest Period (for Advances based upon Adjusted Term CORRA or the Term SOFR Rate): _____ [1 or 3 months]

Borrower hereby confirms as follows:

- (a) Each of the representations and warranties made by each of the Credit Parties in or pursuant to the Agreement and the other Loan Documents are true and correct in all material respects on and as of the date hereof as if made on and as of such date, except as Lender may have otherwise agreed to herein or in a separate writing.
- (b) No Default has occurred as of the date hereof or will occur after the making of the Advance(s) requested hereunder.

DATED this __ day of _____, 20__.

BORROWER: _____

By: _____ c/s

Name:
Title:

EXHIBIT B

FORM OF BORROWING BASE CERTIFICATE

I, the Authorized Officer of DIRTT Environmental Solutions Ltd. ("**Borrower**") hereby certify as of ●, 20●●:

1. I am familiar with and have examined the provisions of the loan agreement (the "**Agreement**") dated February 12, 2021, DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc. (each a "**Borrower**", and collectively the "**Borrowers**") and Royal Bank of Canada ("**Lender**") and have made reasonable investigations of records and inquiries of other officers and senior personnel of Borrower. Terms defined in the Agreement have the same meanings where used in this certificate.
2. The Net Borrowing Availability is \$●, calculated as follows:

U.S.\$ exchange rate at ● (Bank of Canada noon rate for ●, 20●)

[Table of Calculations to be inserted here]

3. The reports and information provided herewith are accurate and complete in all respects and all amounts included as potential prior ranking claims are current amounts owing and not in arrears **[indicate any claims that are past due other than those specifically noted]**.

Dated this ● day of ●, 20●.

Per: _____

Authorized Officer

POTENTIAL PRIOR RANKING CLAIMS

CAD\$

GST	_____
HST	_____
PST/QST	_____
employee source deductions (including EI, CPP and taxes)	_____
past due employer health tax	_____
past due workers' compensation	_____
WEPPA reserve (\$2,000/full time employee; \$1,000/part time employee)	_____
RRSP (employee contributions)	_____
pension plan contributions	_____
rent	_____
[realty/municipal taxes if owned real estate]	_____
other	_____
total	_____
number of full time employees:	_____
number of part time employees:	_____

ATTACHMENT "1" TO EXHIBIT B
ACCOUNTS RECEIVABLE ROLL FORWARD

	CAD\$	U.S.\$
total accounts receivable as of last Borrowing Base Certificate dated _____		
gross sales invoiced (+)		
credit notes (-)		
total cash deposits into Blocked Accounts (-)		
cash deposits into Blocked Accounts not credited against accounts receivable (+)		
cash deposits into Blocked Accounts not related to accounts receivable (+)		
adjustments (+/-)		
total accounts receivable as of current Borrowing Base Certificate dated _____		

EXHIBIT C

FORM OF COMPLIANCE CERTIFICATE

TO: Royal Bank of Canada (“**Lender**”)

The undersigned, _____ **[TITLE of AUTHORIZED OFFICER]**, of DIRT Environmental Solutions Ltd. and DIRT Environmental Solutions, Inc. (each a “**Borrower**”, and collectively the “**Borrowers**”), pursuant to the provisions of the loan agreement dated as of February 12, 2021, among, *inter alia*, Lender and Borrowers (as amended, restated, supplemented, replaced or otherwise modified from time to time, the “**Agreement**”), **DOES HEREBY CERTIFY** in [his/her] capacity as an authorized officer of each Borrower and not in **[his/her]** personal capacity that:

1. The Financial Statements attached hereto fairly and accurately represent the Canadian Borrower's consolidated financial condition at the end of the particular accounting period set out in such Financial Statements, as well as the Canadian Borrower's consolidated operating results during such accounting period, subject to year-end audit adjustments;
2. A review of such Financial Statements and of the activities of the Credit Parties during the period covered by such Financial Statements has been made under my supervision with a view to determining whether the Credit Parties have fulfilled all of their obligations;
3. From the commencement of the accounting period set out in such Financial Statements to the date hereof:
 - (a) there has been no Default or Event of Default under the Agreement;
 - (b) no Credit Party is aware of any event or circumstance which could reasonably have or could reasonably have had a Material Adverse Effect;
 - (c) the representations and warranties contained in the Agreement and the other Loan Documents are correct in all material respects on and as of the date hereof as though made on and as of such date, other than any such representation or warranty which relates to a specified prior date and except to the extent that Lender has been notified in writing by a Borrower that any representation or warranty is not correct and Lender has explicitly waived in writing compliance with such representation or warranty;
 - (d) attached hereto is an updated Schedule G listing of Material Contracts of the Credit Parties;
 - (e) each Credit Party has been in full compliance with all covenants set out in the Agreement, including Financial Covenants as evidenced by the calculations attached hereto as Attachment 1;
 - (f) no new Subsidiaries were formed or acquired since the end of the previous calendar month [If acquired or formed, indicate for each such Subsidiary, the date of the formation or acquisition];
 - (g) no change in GAAP or in the application thereof has occurred since the date of the most recent audited annual Financial Statements of the Credit Parties delivered to Lender **[If a change has occurred, specify the details of the change and its effect on the accompanying Financial Statements]**; and

[if any of the foregoing is incorrect, revise wording accordingly to include particulars of any variation.]

4. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Compliance Certificate on behalf of each Borrower as of the _____ day of _____, 20<●>.

By:

Name:

Title of Authorized Officer

ATTACHMENT "1" TO EXHIBIT C

FINANCIAL COVENANTS

COMPANY NAME _____

MONTHLY CERTIFICATE _____

20__

A. Fixed Charge Coverage Ratio

Net Income

plus:

Depreciation Expense

current and deferred taxes

investment losses accounted for by equity

Total Interest Expense

unrealized hedging losses

non-cash stock based compensation expenses

extraordinary, non-recurring and unusual losses

minus:

reduction of income taxes

unrealized hedging gains

investment gains accounted for by equity

extraordinary, non-recurring and unusual gains

Adjusted EBITDA

minus:

cash income taxes paid

Unfunded Capital Expenditures

Restricted Payments

plus

operating leases and rent

(i) TOTAL

Total Interest Expense

scheduled payments of principal on Funded Debt

scheduled payments under Capital Leases

operating lease payments

(ii) TOTAL

Fixed Charge Coverage Ratio = (i)/(ii)

EXHIBIT D

FORM OF NOTICE OF REPAYMENT

(Letter to be typed on a Borrower's Letterhead)

[DATE]

Royal Bank of Canada
20 King Street West, 4th Floor
Toronto, Ontario M5H 1C4
Attention: Operations Group
FAX: [***]
E-MAIL: [***]

cc:
Attention: Portfolio Manager
E-MAIL: [***]

REPAYMENT NOTICE

We refer to the loan agreement dated as of February 12, 2021 (as amended, restated, supplemented, replaced or otherwise modified from time to time, the "**Agreement**"; capitalized terms used herein but not otherwise defined shall have the meanings set forth in the Loan Agreement), DIRTT Environmental Solutions Ltd. and DIRTT Environmental Solutions, Inc. (each a "**Borrower**", and collectively the "**Borrowers**"), each other Credit Party executing same and Royal Bank of Canada ("**Lender**").

The Borrowers hereby give you notice pursuant to Section 1.2(c) of the Credit Agreement that they intend to make a prepayment of [RBP] [RBUSBR] [Term CORRA] [Term SOFR Rate] Revolving Loans in the amount of [U.S.] / [CDN] \$ _____ on _____, 20____.

[Note to Draft: revise wording accordingly to include particulars if the prepayment is conditioned upon the occurrence or non-occurrence of any event.]

DIRTT ENVIRONMENTAL SOLUTIONS LTD.

Per: _____
Name:
Title:

DIRTT ENVIRONMENTAL SOLUTIONS, INC.

Per: _____
Name:
Title:

SIXTH AMENDMENT OF LEASE

This AGREEMENT dated for reference this 6th day of February, 2023

BETWEEN:

HOOPP REALTY INC./LES IMMEUBLES HOOPP INC.,
by its duly authorized agent Triovest Realty Advisors Inc.

(the "Landlord")

OF THE FIRST PART

AND:

DIRTT ENVIRONMENTAL SOLUTIONS LTD.

(the "Tenant")

OF THE SECOND PART

WHEREAS:

A. by a lease (the "Original Lease") dated the 12th day of February, 2015, and made between the Landlord and the Tenant, the Landlord leased to the Tenant, for and during a term (the "Term") of five (5) years, commencing on the 1st day of May, 2015, certain premises (the "Original Premises") designated as Unit 1 comprising a Rentable Area of approximately 24,890 square feet shown outlined in red on the plan attached to the Original Lease as Schedule A and municipally located at 6335-57th Street SE in the building known as Starfield Logistics Centre, Building 2 (the "Building") in the City of Calgary, in the Province of Alberta;

B. by an agreement (the "Amendment of Lease") dated the 16th day of April, 2015, the Rentable Area of the Original Premises was amended to approximately 25,536 square feet;

C. by an agreement (the "Lease Modification Agreement") dated the 27th day of October, 2015, the parties agreed to relocate the Tenant, effective February 1, 2016, from the Original Premises to Unit 31 in the Building, comprising a Rentable Area of approximately 173,690 square feet shown identified on the plan attached to the Lease Modification Agreement as Schedule A (the "Relocation Premises"), as well as extend the Term of the Original Lease by nine (9) months, to expire on the 31st day of January, 2021, all as more particularly set out therein;

D. by an agreement (the "Third Amendment of Lease") dated the 12th day of November, 2015, the Deposits were amended as more particularly set out therein;

E. by an agreement (the "Fourth Amendment of Lease") dated the 8th day of January, 2016, the Tenant expanded the size of the Relocation Premises by approximately 25,536 square feet, being the Original Premises, as outlined in red on Schedule "A" attached thereto (the "Expansion Area") effective February 1, 2016, which, together with the Relocation Premises, constituted a total area of One Hundred Ninety-Nine Thousand Two Hundred Twenty-Six (199,226) square feet (the "Premises"); in addition, the Term of the Original Lease was extended by a period of Two (2) years, commencing on the 1st day of February, 2021 and expiring on the 31st day of January, 2023 on terms and conditions set forth therein;

F. by an agreement (the "Fifth Amendment of Lease") dated the 9th day of August, 2019, the Term of the Original Lease was extended for one (1) year, expiring on the 31st day of January, 2024, on terms and conditions as more particularly set out therein;

G. the Original Lease, the Amendment of Lease, the Lease Modification Agreement, the Third Amendment of Lease, the Fourth Amendment of Lease, and the Fifth Amendment of Lease are hereinafter collectively referred to as the "Lease"; and

H. the Landlord and the Tenant have agreed to extend the Term of the Lease for Five (5) years (the "Second Extended Term") commencing on the 1st day of February, 2024 and expiring on the 31st day of January, 2029 on terms and conditions hereinafter set forth.

NOW THEREFORE, pursuant to the premises and in consideration of the covenants and agreements herein contained and the sum of \$10.00 and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the Landlord and Tenant covenant and agree to modify the Lease as follows:

1. The parties acknowledge that the foregoing recitals are true in substance and in fact.
2. Capitalized terms that are used in this Agreement and not otherwise defined shall have the meanings ascribed thereto in the Lease.
3. The Term of the Lease is hereby extended for the Second Extended Term, commencing on the 1st day of February, 2024 and expiring on the 31st day of January, 2029, upon the same terms, covenants and conditions as contained in the Lease except as amended by this Agreement.
4. In respect of the Second Extended Term created hereby, the Tenant shall pay to the Landlord for the Premises a Base Rent as follows:
 - a) February 1, 2024 – January 31, 2025: \$1,942,453.50 per annum, payable in advance in equal monthly instalments (to be made on the first day of each and every calendar month during the period) of \$161,871.13 per month based upon a rate of \$9.75 per square foot of the Rentable Area of the Premises;
 - b) February 1, 2025 – January 31, 2026: \$2,000,229.04 per annum, payable in advance in equal monthly instalments (to be made on the first day of each and every calendar month during the period) of \$166,685.75 per month based upon a rate of \$10.04 per square foot of the Rentable Area of the Premises;
 - c) February 1, 2026 – January 31, 2027: \$2,059,996.84 per annum, payable in advance in equal monthly instalments (to be made on the first day of each and every calendar month during the period) of \$171,666.40 per month based upon a rate of \$10.34 per square foot of the Rentable Area of the Premises;
 - d) February 1, 2027 – January 31, 2028: \$2,121,756.90 per annum, payable in advance in equal monthly instalments (to be made on the first day of each and every calendar month during the period) of \$176,813.08 per month based upon a rate of \$10.65 per square foot of the Rentable Area of the Premises; and
 - e) February 1, 2028 – January 31, 2029: \$2,185,509.22 per annum, payable in advance in equal monthly instalments (to be made on the first day of each and every calendar month during the period) of \$182,125.77 per month based upon a rate of \$10.97 per square foot of the Rentable Area of the Premises.

*Provided the Tenant is not and has not been in default under the terms of the Lease, then the Tenant shall be permitted to occupy the Premises free of Base Rent for the first four (4) months of the Second Extended Term. For clarity, the **Tenant's** obligation to pay Occupancy Costs and any other Additional Rent shall continue unabated.
5. For clarity, Schedule H, Item 2 (*Option to Renew*) shall continue in full force and effect.
6. The Tenant is continuing occupation of the Premises on an "as is" basis, and there are no representations or warranties on the part of Landlord to complete any Landlord's Work during the Second Extended Term.
7. The Landlord acknowledges that the sum of \$33,367.69 is currently being held by the Landlord, without liability for interest, and may be applied, in the Landlord's discretion, to remedy any default by the Tenant in its performance of any of the terms, covenants and conditions of the Lease. Upon demand by the Landlord following any such appropriation, the Tenant shall pay to the Landlord an amount sufficient to restore the amount of the Deposit as outlined herein. If the Tenant complies with all of the terms, covenants and conditions of the Lease the Deposit shall be returned to the Tenant within thirty (30) days of the expiry or earlier termination of the Term.
8. This Agreement is supplemental to the Lease, and all covenants, agreements, provisos, stipulations and conditions whatsoever therein contained shall continue in full force and effect during the Second Extended Term except as to the explicitly amended terms and conditions set forth herein, and with the exception of any agreements to free rent periods, rental concessions, inducements,

allowances and improvements.

9. This Agreement may be executed by the parties in separate counterparts all of which, when taken together, will constitute a single agreement among the parties. Execution of this Agreement by a party may be evidenced by way of an electronic transfer emailed (by way of an Adobe Acrobat PDF file) transmission of such party's signature, or by a photocopy of a party's signature, each of which will constitute the original signature of such party to this Agreement.

10. This Agreement will enure to the benefit of and be binding upon the Landlord and Tenant and their respective successors and permitted assigns.

IN WITNESS WHEREOF the Landlord has executed this Agreement on the ___16__day of __February__ in the year 2023.

HOOPP REALTY INC./LES IMMEUBLES HOOPP INC.,
by its duly authorized agent, Triovest Realty Advisors Inc.
(LANDLORD)

Per: /s/ Brad Merchant
Name & Title: Senior VP Asset Management

IN WITNESS WHEREOF the Landlord has executed this Agreement on the ___16___day of __February__ in the year 2023.

DIRTT ENVIRONMENTAL SOLUTIONS LTD.
(TENANT)

Per: /s/ Bradley S. Little
Name & Title: Chief Financial Officer

DIRTT Environmental Solutions Ltd.

List of Subsidiaries

<u>Name</u>	<u>Jurisdiction of Organization</u>
DIRTT Environmental Solutions, Inc.	Colorado

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-234143, 333-238689 and 333-273622) of DIRTT Environmental Solutions Ltd. of our report dated February 21, 2024 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants

Calgary, Alberta, Canada
February 21, 2024

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, Benjamin Urban, certify that:

1. I have reviewed this Annual Report on Form 10-K of DIRTT Environmental Solutions Ltd. (the “registrant”) for the year ended December 31, 2023;
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(s) 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: February 21, 2024

By: /s/ Benjamin Urban

Benjamin Urban
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, Fareeha Khan, certify that:

1. I have reviewed this Annual Report on Form 10-K of DIRTT Environmental Solutions Ltd. (the “registrant”) for the year ended December 31, 2023;
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(s) 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: February 21, 2024

By: /s/ Fareeha Khan

Fareeha Khan
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 Annual Report on Form 10-K of DIRT Environmental Solutions Ltd. (the “Company”) for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Benjamin Urban, 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: February 21, 2024

By: /s/ Benjamin Urban

Benjamin Urban
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 Annual Report on Form 10-K of DIRT Environmental Solutions Ltd. (the “Company”) for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Fareeha Khan, 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: February 21, 2024

By: /s/ Fareeha Khan

Fareeha Khan
Chief Financial Officer
(Principal Financial Officer)