

# Audit Committee Charter

DIRTT Environmental Solutions



# AUDIT COMMITTEE CHARTER

## DIRTT Environmental Solutions

Approved October 17, 2013 (Revised March 8, 2017 & January 22, 2018)

### A. RESPONSIBILITY

The Audit Committee is responsible for assisting the Board of Directors (the “Board”) of the Corporation in fulfilling its oversight responsibilities in relation to:

- a) the integrity of the Corporation’s financial statements;
- b) the Corporation’s compliance with legal and regulatory requirements related to financial reporting;
- c) the qualifications, independence and performance of the Corporation’s auditor;
- d) the design, implementation and maintenance of internal controls and disclosure controls; and
- e) any additional matters delegated to the Audit Committee by the Board.

### B. MEMBERS

The Board must appoint a minimum of three directors to be members of the Audit Committee. The members of the Audit Committee will be selected by the Board on the recommendation of the Corporate Governance Committee.

All of the members of the Audit Committee will be “independent directors” (“Independent Directors”) as defined in National Instrument 52-110 — Audit Committees, as amended from time to time (“NI 52-110”). In addition, every member of the Audit Committee will be “financially literate” as defined in NI 52-110.

### C. DUTIES

The Audit Committee is responsible for performing the duties set out below as well as any other duties that are otherwise required by law or delegated to the Audit Committee by the Board.

#### 1. Appointment and Review of the Auditor

The auditor is ultimately accountable to the Audit Committee and reports directly to the Audit Committee. Accordingly, the Audit Committee will evaluate and be responsible for the Corporation’s relationship with the auditor. Specifically, the Audit Committee will:

- a) select, evaluate and nominate the auditor to be proposed for appointment or reappointment, as the case may be, by the shareholders;
- b) review and approve the auditor’s engagement letter;
- c) review the independence, experience, qualifications and performance of the auditor, including the engagement and lead partners, in recommending its appointment or reappointment, including considering whether the auditor’s provision of any permitted non-audit services is compatible with maintaining its independence;
- d) resolve any disagreements between senior management and the auditor regarding financial reporting;
- e) at least annually, obtain and review a report by the auditor describing:
  - i. the auditor’s internal quality-control procedures, including with regard to safeguarding confidential

- information;
- ii. any material issues raised by the most recent internal quality control review, or peer review, of the auditor, or review by any independent oversight body, such as the Canadian Public Accountability Board, or governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the auditor, and the steps taken to deal with any issues raised in any such review; and
- f) where appropriate, terminate the auditor.

## **2. Confirmation of the Auditor's Independence**

At least annually, and before the auditor issues its report on the annual financial statements, the Audit Committee will:

- a) review a formal written statement from the auditor describing all of its relationships with the Corporation;
- b) discuss with the auditor any relationships or services that may affect its objectivity and independence;
- c) obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Professional Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and
- d) confirm that the auditor has complied with applicable rules, if any, with respect to the rotation of certain members of the audit engagement team.

## **3. Pre-Approval of Non-Audit Services**

The Audit Committee will pre-approve the appointment of the auditor for any non-audit service to be provided to the Corporation. Before the appointment of the auditor for any non-audit service, the Audit Committee will consider the compatibility of the service with the auditor's independence. The Audit Committee may pre-approve the appointment of the auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the auditor for non-audit services. Such policies and procedures will be detailed as to the particular service, and the Audit Committee must be informed of each service, and the procedures may not include delegation of the Audit Committee's responsibilities to management. In addition, the Audit Committee may delegate to one or more members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Audit Committee at its next scheduled meeting.

## **4. Communications with the Auditor**

The Audit Committee has the authority to communicate directly with the auditor and will meet privately with the auditor periodically to discuss any items of concern to the Audit Committee or the auditor, such as:

- a) the scope, planning and staffing of the audit;
- b) the auditor's materiality threshold for the audit;
- c) the assessment by the auditor of significant audit risk;
- d) any material written communications between the auditor and senior management, such as any management letter or schedule of unadjusted differences;
- e) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;
- f) the extent to which the auditor is satisfied with the nature and scope of its examination;

- g) whether or not the auditor has received the full co-operation of senior management and other employees of the Corporation;
- h) the auditor's opinion of the competence and performance of the Chief Financial Officer and other key financial personnel;
- i) the items required to be communicated to the Audit Committee under the Canadian authoritative guidance;
- j) critical accounting policies and practices to be used by the Corporation;
- k) alternative treatments of financial information within generally accepted accounting principles that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor;
- l) any difficulties encountered in the course of the audit work, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with senior management and their response; and
- m) any illegal act that may have occurred and the discovery of which is required to be disclosed to the Audit Committee.

## 5. Review of the Audit Plan

The Audit Committee will discuss with the auditor the nature of an audit and the responsibility assumed by the auditor when conducting an audit under generally accepted auditing standards. The Audit Committee will review a summary of the auditor's audit plan for each audit.

## 6. Review of Audit Fees

The Audit Committee will determine the auditor's fee and the terms of the auditor's engagement. In determining the auditor's fee, the Audit Committee should consider, among other things, the number and nature of reports to be issued by the auditor, the quality of the internal controls of the Corporation, the size, complexity and financial condition of the Corporation and the extent of support to be provided to the auditor by the Corporation.

## 7. Review of Financial Statements

The Audit Committee will review and discuss with senior management and the auditor the annual audited financial statements, together with the auditor's report thereon, and the interim financial statements, before recommending them for approval by the Board. The Audit Committee will also review and discuss with senior management and the auditor management's discussion and analysis relating to the annual audited financial statements and interim financial statements. The Audit Committee will also engage the auditor to review the interim financial statements prior to the Audit Committee's review of such financial statements.

Before recommending any financial statements to the Board for approval, the Audit Committee will satisfy itself that such financial statements, together with the other financial information included in the Corporation's annual and interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the relevant date and for the relevant periods.

In conducting its review of the financial statements and related management's discussion and analysis, the Audit Committee will:

- a) consider the quality of, and not just the acceptability of, the accounting principles, the reasonableness of senior management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;

- b) discuss any analyses prepared by senior management or the auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP;
- c) discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;
- d) consider any changes in accounting practices or policies and their impact on financial statements of the Corporation;
- e) discuss with senior management, the auditor and, if necessary, legal counsel, a report from senior management describing any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;
- f) discuss with senior management and the auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;
- g) discuss with the auditor any special audit steps taken in light of material weaknesses in internal control;
- h) review the results of the audit, including any reservations or qualifications in the auditor's opinion;
- i) discuss with the auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the auditor but were "passed" (as immaterial or otherwise), and significant disagreements with senior management;
- j) discuss with the auditor any issues on which the Corporation's audit team consulted the auditor's national office;
- k) review disclosure requirements for all related party transactions; and
- l) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

## 8. Review of Other Financial Information

The Audit Committee will review:

- a) all earnings press releases and other press releases containing financial information, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee will also review the use of "pro forma" or "adjusted" non-GAAP information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;
- b) all other financial statements of the Corporation that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in Core Documents (as defined in the Corporation's Disclosure Policy) and financial statements required by regulatory authorities;
- c) the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements; and

- d) disclosures made to the Audit Committee by the Chief Executive Officer and Chief Financial Officer during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of the Corporation's internal control over financial reporting which are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information, and any fraud involving senior management or other employees who have a significant role in the Corporation's internal control over financial reporting.

## **9. Relations with Senior Management and other Board Committees**

The members will periodically meet privately with senior management to discuss any areas of concern to the Audit Committee or senior management.

The Audit Committee will provide input to the Compensation Committee on the competence and performance of the Chief Financial Officer and will provide input to the Chief Financial Officer on the competence and performance of other key financial personnel. In addition, the Audit Committee will provide input on the hiring and/or dismissal of the Chief Financial Officer, prior to any decision being made by the President and Chief Executive Officer.

The Audit Committee will meet with the Disclosure Committee as reasonably required to allow both committees to fulfill their respective mandates, and to ensure that all public disclosure of financial information (including annual and interim financial statements and management's discussion and analysis related thereto, and all news releases containing financial information) are approved by the Audit Committee prior to public disclosure. Members of the Audit Committee will also consult with the Disclosure Committee when requested in connection with making materiality determinations relating to DIRTT's disclosure obligations.

## **10. Oversight of Internal Controls and Disclosure Controls**

The Audit Committee will review with senior management the adequacy of the internal controls and procedures that have been adopted by the Corporation to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records. The Audit Committee will review any special audit steps adopted in light of material control deficiencies.

The Audit Committee will review with senior management the controls and procedures that have been adopted by the Corporation to confirm that material information about the Corporation and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed.

## **11. Legal Compliance**

The Audit Committee will review with legal counsel any legal matters that could have a significant effect on the Corporation's financial statements. It will also review with legal counsel material inquiries received from regulators and governmental agencies and advise the Board accordingly.

## **12. Risk Management**

The Audit Committee will oversee the Corporation's risk assessment and management function and, on a quarterly basis, will review a report from senior management describing the major financial (including taxation matters), legal, operational and reputational risk exposures of the Corporation and the steps senior management has taken to monitor and control such exposures, including the Corporation's policies with respect to monitoring risk assessment and managing and controlling risks.

At least annually, the Audit Committee will meet separately with members of senior management and, if desired by the Audit Committee and/or the Corporation's auditors, to assess the Corporation's risk assessment and management policies and practices, including an assessment of the Corporation's most significant areas of risk and the Corporation's plans to monitor and manage those areas of risk (including the Corporation's insurance relating thereto). Periodically and no less than every two years, the Audit Committee will review and advise the Board with respect to the Corporation's Directors' and Officers' liability insurance.

### **13. Taxation Matters**

The Audit Committee will review with senior management the status of taxation matters of the Corporation. The Audit Committee will also review a report from senior management confirming that the Corporation has withheld or collected and remitted all amounts required to be withheld or collected and remitted by it in respect of any taxes, levies, assessments, reassessments and other charges payable to any governmental authority.

### **14. Employees of the Auditor**

The Audit Committee will pre-approve the hiring by the Corporation of any partners or employees or former partners or employees of the auditor.

### **15. Conduct and Ethics**

On a quarterly basis, the Audit Committee Chair will review all expenses incurred by the Chair of the Board and the Chair of the Board will review all expenses incurred by the President and Chief Executive Officer, and all other directors.

### **16. Complaints Procedure**

The Audit Committee will review the procedures established in the Corporation's Integrity Policy for the receipt, retention and follow-up of complaints received by the Corporation on a confidential and anonymous basis regarding the following:

- a) Any complaint regarding accounting, internal controls, disclosure controls or auditing matters;
- b) Any good faith concerns regarding questionable accounting or auditing matters;
- c) Any actual or apparent violation of the Corporation's Disclosure and Insider Trading Policy;
- d) Any actual or apparent violation of the Corporation's Code of Conduct – The Way We Do Business.

The Chair is responsible for investigating and resolving all complaints or concerns submitted under the Integrity Policy. At his/her discretion, he/she shall advise the President and Chief Executive Officer, the Chief Financial Officer and/or the Audit Committee of complaints or concerns received, prior to the date of his/her final report.

### **17. Reporting**

The Audit Committee will regularly report to the Board on:

- a) the auditor's independence;
- b) the performance of the auditor and the Audit Committee's recommendations regarding its reappointment or termination;
- c) the adequacy of the Corporation's internal controls and disclosure controls;
- d) its recommendations regarding the annual and interim financial statements of the Corporation, including any issues with respect to the quality or integrity of the financial statements;

- e) its review of the annual and interim management's discussion and analysis;
- f) the Corporation's compliance with legal and regulatory requirements related to financial reporting;
- g) the Corporation's risk assessment and management policies and practices; and
- h) all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

## D. MEETINGS

### **Subject to the Corporation's by-laws and articles and the requirements under the *Business Corporations Act (Alberta)*:**

#### **1. Scheduling**

The Audit Committee will meet at least four (4) times annually or more frequently as it determines is necessary to fulfill its responsibilities, which will be not less than four times a year. A meeting of the Audit Committee may be called by the Chair of the Audit Committee, the Chair of the Board, the President and Chief Executive Officer, the Chief Financial Officer, any Audit Committee member or the Corporation's auditor.

Meetings will be held at a location determined by the Chair of the Audit Committee.

#### **2. Notice**

Notice of the time and place of each meeting will be given to each member either by telephone or other electronic means not less than 48 hours before the time of the meeting. Meetings may be held at any time without notice if all of the members have waived or are deemed to have waived notice of the meeting. A member participating in a meeting will be deemed to have waived notice of the meeting.

#### **3. Agenda**

The Chair of the Audit Committee will preside as Chair of each meeting and will establish the agenda for each meeting and lead discussion on meeting agenda items. The Chair shall instruct management to circulate properly prepared agenda materials to Committee members with sufficient time to review prior to scheduled meetings.

Any member may propose the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any meeting raise subjects that are not on the agenda for the meeting.

#### **4. Distribution of Information**

The Chair of the Audit Committee will distribute, or cause the Secretary to distribute, an agenda and meeting materials in advance of each meeting to allow members sufficient time to review and consider the matters to be discussed.

#### **5. Attendance and Participation**

Each member is expected to attend all meetings. A member who is unable to attend a meeting in person may participate by telephone or teleconference.

#### **6. Quorum**

A majority of members will constitute a quorum for any meeting of the Audit Committee.

## **7. Voting and Approval**

At meetings of the Audit Committee, each member will be entitled to one vote and questions will be decided by a majority of votes. In case of an equality of votes, the Chair of the Audit Committee will not have a second or casting vote in addition to his or her original vote.

## **8. Procedures**

Procedures for Audit Committee meetings will be determined by the Chair of the Audit Committee unless otherwise determined by the by-laws of the Corporation or a resolution of the Audit Committee or the Board.

## **9. Transaction of Business**

The powers of the Audit Committee may be exercised at a meeting where a quorum is present in person or by telephone or other electronic means, or by resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Audit Committee.

## **10. Absence of Chair**

In the absence of the Chair of the Audit Committee at a meeting of the Audit Committee, the members in attendance must select one of them to act as chair of that meeting.

## **11. Secretary**

The Audit Committee may appoint one of its members or any other person to act as secretary.

## **12. Minutes of Meetings**

A person designated by the Chair of the Audit Committee at each meeting will keep minutes of the proceedings of the Audit Committee and the Chair will cause the Secretary to circulate copies of the minutes to each member on a timely basis.

## **E. CHAIR**

Each year, the Board will appoint one member to be Chair of the Audit Committee. If, in any year, the Board does not appoint a Chair of the Audit Committee, the incumbent Chair of the Audit Committee will continue in office until a successor is appointed.

## **F. REMOVAL AND VACANCIES**

Any member may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Audit Committee by appointment from among qualified members of the Board. If a vacancy exists on the Audit Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

## G. ASSESSMENT

At least annually, the Corporate Governance Committee will review the effectiveness of the Audit Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the mandate adopted by the Board.

## H. REVIEW AND DISCLOSURE

The Audit Committee will review this Charter at least annually and submit it to the Corporate Governance Committee together with any proposed amendments. The Corporate Governance Committee will review the Charter and submit it to the Board for approval with such further amendments as it deems necessary and appropriate.

This Charter will be posted on the Corporation's website and the annual report of the Corporation will state that this Charter is available on the website or is available in print to any shareholder who requests a copy.

## I. ACCESS TO OUTSIDE ADVISORS AND RECORDS

The Audit Committee may retain any outside advisor at the expense of the Corporation at any time and has the authority to determine any such advisor's fees and other retention terms.

The Audit Committee, and any outside advisors retained by it, will have access to all records and information relating to the Corporation which it deems relevant to the performance of its duties.