The Management's Discussion and Analysis of Financial Condition and Results of Operations for DIRTT Environmental Solutions Ltd. ("MD&A") is also included in the Form 10-Q for the period ended September 30, 2021 filed on SEDAR on November 3, 2021 in its entirety ("Form 10-Q"). Capitalized terms without definition in this MD&A are as defined elsewhere in the Form 10-Q. All references to US$ or $ are to U.S. dollars and references to C$ are to Canadian dollars.

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

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

Summary of Financial Results

- Revenues for the quarter ended September 30, 2021 were $34.1 million, a decline of $12.1 million or 26% from $46.2 million for the quarter ended September 30, 2020. Revenue decreased 19% to $104.7 million for the nine months ended September 30, 2021 from $129.3 million for the nine months ended September 30, 2020. On a year-to-date basis, we believe this decrease principally reflects the severe economic and social impact of the COVID-19 pandemic since March 2020, including a major contraction in construction activity levels in North America due to non-essential business closures, work-from-home requirements, lock-down measures and other regulatory responses implemented by governments and public health officials. In the quarter ended September 30, 2021, we experienced the impacts of slowdowns in construction schedules delaying product shipments, with such slowdowns due to a combination of Delta variant-driven resurgence in COVID-19 ("Fourth Wave") infections in late August and September 2021 and increasing upstream supply chain bottlenecks.
- Gross profit for the quarter ended September 30, 2021 was $2.5 million or 7.2% of revenue, a decline of $13.7 million or 85% from $16.2 million or 35.1% of revenue for the quarter ended September 30, 2020. The decrease was largely due to the impact of our fixed costs on lower quarterly revenues, which includes $0.8 million of incremental costs related to our new highly automated panel manufacturing facility in Rock Hill, South Carolina (the "South Carolina Facility"). Additionally, the reduction in gross profit was attributable to the impact of realized increases in the cost of materials, transportation and packaging over the prior year which reduced gross profit margin by approximately 10% as well as the $0.5 million negative impact of a stronger Canadian dollar on Canadian-based manufacturing costs. In the third quarter of 2021, we further reduced our manufacturing workforce by 5%. The three months ended September 30, 2020 included a $0.5 million reversal of a timber provision that did not reoccur in 2021.
- On October 12, 2021 we announced an approximate 6.5% overall increase in our product and transportation prices effective on new orders subsequent to November 15, 2021 to offset these increased input costs.
- Gross profit for the nine month period ended September 30, 2021 was $15.0 million or 14.4% of revenue, a decline of $26.7 million or 64% from $41.7 million or 32.3% of revenue for the nine month period ended September 30, 2020. The decrease was largely due to the impact of fixed costs and under-utilized labor capacity on lower revenues. The reduction was also attributable to realized increases in the cost of materials, transportation and packaging which reduced gross profit margin by approximately 6%, and a specialized project that required additional third party manufactured inputs, $1.8 million of incremental costs related to our new South Carolina Facility as well as the $2.1 million negative impact of a stronger Canadian dollar on Canadian-based manufacturing costs. Between January and April 2020, we reduced our manufacturing workforce by 25% to bring labor capacity in line with expected requirements during the onset of the COVID-19 pandemic. In the third quarter of 2021, we further reduced our manufacturing workforce by 5%. As a result, our manufacturing headcount at September 30, 2021 was approximately 28% lower than the December 31, 2019 pre-pandemic levels. In addition, the nine months ended September 30, 2020 included a $1.8 million reversal of a timber provision that did not reoccur in 2021.
- Adjusted Gross Profit (see "Non-GAAP Financial Measures") for the quarter ended September 30, 2021 was $4.8 million or 14.0% of revenue, a $13.4 million or 74% decline from $18.2 million or 39.3% of revenue for the quarter ended September 30, 2020 for the reasons described above.
- Adjusted Gross Profit (see "Non-GAAP Financial Measures") for the nine months ended September 30, 2021 was $23.2 million or 22.1% of revenue compared to $49.9 million or 38.6% of revenue for the nine

months ended September 30, 2020. Excluded from Adjusted Gross Profit for the nine months ended September 30, 2021 and 2020 are $1.8 million and $2.0 million, respectively, of overhead costs associated with operating at lower than normal capacity levels, which were charged directly and separately to cost of sales rather than as a cost attributable to production.

- Net loss for the three months ended September 30, 2021 was $15.4 million compared to $2.1 million for the three months ended September 30, 2020. The higher net loss is primarily the result of the above noted reduction in gross profit, a $1.6 million increase in operating expenses, a $1.6 million reduction of government subsidies and a $0.7 increase in interest expense. These amounts were partially offset by a $1.0 million net decrease in foreign exchange losses. Operating expenses increased largely due to higher travel, meals and entertainment costs due to the easing of COVID-19 restrictions, an estimated $0.3 million impact of a stronger Canadian dollar on Canadian-based operating expenses and higher depreciation and amortization expense attributable to the Chicago DIRTT Experience Center ("DXC") which was completed last year.
- Net loss for the nine months ended September 30, 2021 was $37.7 million compared to $7.1 million for the nine months ended September 30, 2020. The higher net loss is primarily the result of the above noted reduction in gross profit, a $4.6 million increase in operating expenses, a $0.6 million decrease in foreign exchange gains and a $1.9 million increase in interest expense. These decreases were partially offset by a $1.8 million reduction in income tax expense and a $1.6 million increase of government subsidies. Operating expenses increased largely due to higher salary and wage expenses as we continue to build our sales organization and execute on our strategic plan, increased depreciation and amortization, discussed above, increased stock-based compensation expense as well as the estimated $2.2 million impact of a stronger Canadian dollar on Canadian-based operating expenses, partially offset by lower commissions on reduced sales activities and lower professional fees.
- Adjusted EBITDA (see "Non-GAAP Financial Measures") for the quarter ended September 30, 2021 was a $13.3 million loss or (39.1%) of revenue, a decline of $14.2 million from $0.9 million, or 1.8% of revenue, for the quarter ended September 30, 2020 for the above noted reasons. Adjusted EBITDA for the nine months ended September 30, 2021 was a $31.5 million loss or (30.1%) of revenue, a decline of $27.1 million from a loss of $4.4 million, or (3.4)% of revenue, for the nine months ended September 30, 2020 for the above noted reasons.

Outlook

In November 2019, DIRTT began implementing a four-year strategic plan for the Company, based on three key pillars: commercial execution, manufacturing excellence and innovation. Our long-term objective is to scale our operations to profitably capture the significant market opportunity we believe can be created by driving conversion from conventional construction to DIRTT's process of modular, prefabricated interiors.

During the third quarter of 2021, DIRTT's business continued to be impacted by the COVID-19 pandemic. Surging rates of Delta variant-driven infections in August and September of 2021 caused many companies to defer return-to-office plans, reduced the sense of urgency to complete in-process construction projects, and exacerbated on-site construction labor shortages. Construction schedules were slowed by the combination of these factors and continued upstream construction product supply chain issues, thereby delaying shipping dates for DIRTT interiors initially scheduled for late August and September into the fourth quarter of 2021 and 2022. Consequently, September 2021 revenues were the second lowest in the year and drove approximately 40% of the Adjusted EBITDA loss in the quarter.

As a result, third quarter 2021 revenues of $34.1 million were below our previous expectations that revenues would remain generally consistent with second quarter 2021 revenue of $41.1 million. However, to date we have not experienced material project cancellations. Rather, order activity and shipments in October improved by approximately 50% from September, reflecting the project delays from September and a resumption of activity as the Fourth Wave begins to abate. Based on October results and order entry activity for November to date, we anticipate fourth quarter 2021 revenues to be between $40 and $45 million. As we experienced in the third quarter, changes in the pandemic and its consequential and rapid effects on construction activity, including upstream supply chain and labor challenges, could negatively impact these expectations.

In the third quarter, we continued to experience significant increases in raw material prices, including aluminum, medium density fiberboard and glass, as well as transportation costs. These increases exceeded our expectations, and to mitigate their impact on our profitability, we announced a price increase on our interior solutions plus an adjustment to our freight charges, effective November 16, 2021, resulting in an overall increase of approximately 6.5%. Despite these price increases, we believe our solutions remain highly competitive with conventional construction, which has experienced a higher relative level of raw material cost inflation.

While the pandemic recovery is taking longer than anticipated and despite the near-term shortfall in sales, we are seeing momentum building into 2022 on several commercial fronts, driven largely by our enhanced commercial capabilities. Companies are continuing to express an increasing interest in flexible, adaptable spaces and prefabricated, offsite construction as they explore new ways of working with their teams. We believe DIRTT is uniquely positioned to address this new built environment and remain confident that the return to a more normalized level of construction activity is a matter of when it will occur, not if it will occur.

Customer engagement in the form of virtual tours at our Calgary DXC and in-person and virtual tours at our fully renovated Chicago DXC and our new Dallas DXC remained high relative to earlier in the pandemic. In October, we held our first Connext trade show at our Chicago DXC since the beginning of the pandemic, hosting over 1,000 clients, contractors, designers and architects for in-person and virtual tours. In addition, approximately half of our Distribution Partners were able to attend Connext in person. Development and expansion of our 44 strategic accounts base remains a focus as they provide us the opportunity to generate repeat sales based on existing relationships, with multiple in-person presentations to Fortune 500 companies undertaken in the quarter. Our Distribution Partner network is demonstrating increased confidence, hiring over 75 DIRTT dedicated positions since the start of 2021, of which more than 50% were hired in the third quarter. We believe this hiring acceleration is evidence of their increased market confidence and commitment to DIRTT. We finalized the onboarding of our two new general contractor Distribution Partners and continued to actively recruit new Distribution Partners for key underserved regions and sectors.

Operationally, during the third quarter we focused on allocating tile production between our facilities in Calgary and Rock Hill and reduced our manufacturing workforce by a further 5%. As our new highly automated Rock Hill facility requires one-sixth of the labor as the Calgary facility and is largely fixed in nature, it has the potential to generate further labor efficiencies as it takes on more proportionately more production as activity increases. In evaluating manufacturing capacity for 2022, we anticipate higher sales relative to 2021 and as the timing remains difficult to confirm, we have maintained a base level of both physical and labor capacity to remain responsive to the opportunity pipeline we are seeing and to the type of inter-month volatility we experienced in September and October 2021. This has, and is expected to continue to, negatively impact gross margins due to both negative fixed cost leverage and excess labor capacity. As activity improves, we expect gross margins to improve accordingly. Since December 31, 2019, we have reduced our manufacturing labor force by 28%, while at the same time dramatically improving both our safety record, quality processes and operational effectiveness and significantly mitigating single plant risk as it relates to our panel manufacturing facilities.

From a supply chain perspective, in addition to the inflationary pressures described above, we are witnessing a tightening in overall aluminum extrusion supply and increased lead times for supply. Shortage of scrap and labor at aluminum mills in North America has resulted in the allocation of raw aluminum billets to aluminum extruders. While we believe we have adequate supply to meet current activity levels, we are both expanding our network of aluminum extruders and increasing our inventory to mitigate potential supply risk when sales activity increases.

Maintaining liquidity continues to be a primary focus during this challenging time. Based upon our current sales outlook for 2022, in combination with our cash reserves and available credit facilities, we believe we have sufficient liquidity for at least the next twelve months. We assess our financial strength on an ongoing basis, including potential alternatives to bolster our balance sheet to mitigate the risk of delays in sales recovery. Our unrestricted cash balance at September 30, 2021 was $43.3 million, compared to $58.3 million at June 30, 2021 and $45.8 million at December 31, 2020. Net working capital was $52.8 million at September 30, 2021 compared to $67.2 million at June 30, 2021 and $53.5 million at December 31, 2020. During the third quarter of 2021, working capital and cash balances declined reflecting the sequentially lower sales activity discussed above. Facility draws of $2-3 million that were expected to occur in the third quarter are now expected in the fourth quarter due to delays in the receipt of the associated equipment. We continued to benefit from the Canadian Emergency Wage Subsidy (CEWS) and the Canadian Emergency Rent Subsidy (CERS), qualifying for $2.9 million in subsidies in the third quarter, of which $1.5 million was receivable at September 30, 2021. The CEWS and CERS programs expired on October 23, 2021 which have provided cash proceeds of approximately $23 million since the inception of the programs in 2020. With both our major Dallas DXC and Rock

Hill facility projects completed, we are anticipating a capital program in 2022 of approximately $7 million, comprised of approximately $2.5 million related to refreshes of DIRTT Experience Centers and other sales and marketing initiatives, approximately $2.5 million of software development and a further $2.0 million of manufacturing and other capital upgrades.

When we announced our strategic plan in November 2019, before the onset of the COVID-19 pandemic, we set financial targets of $450 million to $550 million in revenue and 18% - 22% adjusted EBITDA margins, to be achieved by the end of 2023. We believe these financial targets remain achievable, particularly in light of the significant progress that we have made transforming the Company from an operational and commercial perspective. However, we believe the ongoing economic uncertainty caused by the pandemic has delayed our ability to achieve these targets. We will re-evaluate the timing of our targets once the pandemic nears resolution. We remain confident that DIRTT's value proposition will be as or even more relevant in the post-pandemic world.

Non-GAAP Financial Measures

Note Regarding Use of Non-GAAP Financial Measures

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

As a result, we also provide financial information in this Quarterly Report that is not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. Management uses these non-GAAP financial measures in its review and evaluation of the financial performance of the Company. We believe that these non-GAAP financial measures also provide additional insight to investors and securities analysts as supplemental information to our GAAP results and as a basis to compare our financial performance period over period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt and debt facilities, or foreign exchange movements), asset base (depreciation and amortization), the impact of under-utilized capacity on gross profit, tax consequences and stock-based compensation. 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, and foreign exchange gains and losses are excluded from our non-GAAP financial measures because management considers them to be outside of the Company's core operating results, even though some of those receipts and expenses may recur, and because management believes that each of these items can distort the trends associated with the Company's ongoing performance. We believe that excluding these receipts and expenses provides investors and management with greater visibility to the underlying performance of the business operations, enhances consistency and comparativeness with results in prior periods that do not, or future periods that may not, include such items, and facilitates comparison with the results of other companies in our industry.

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

Adjusted Gross Profit	Gross profit before deductions for costs of under-utilized capacity, 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 for foreign exchange gains or losses; stock-based compensation expense; government subsidies, 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.

EBITDA and Adjusted EBITDA for the Three and Nine Months Ended September 30, 2021 and 2020

The following table presents a reconciliation for the third quarter and year-to-date results of 2021 and 2020 of EBITDA and Adjusted EBITDA to our net income (loss), which is the most directly comparable GAAP measure for the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	($ in thousands)		($ in thousands)	
Net loss for the period	(15,419)	(2,075)	(37,656)	(7,120)
Add back (deduct):				
Interest Expense	823	100	2,117	196
Interest Income	(20)	(27)	(62)	(222)
Income Tax Expense	88	3,392	347	2,190
Depreciation and Amortization	3,815	2,780	10,638	8,673
EBITDA	**(10,713)**	**4,170**	**(24,616)**	**3,717**
Foreign Exchange (Gains) Losses	(526)	485	(286)	(874)
Stock-based Compensation	837	714	3,792	1,600
Government Subsidies	(2,935)	(4,519)	(10,434)	(8,803)
Adjusted EBITDA	**(13,337)**	**850**	**(31,544)**	**(4,360)**
Net Loss Margin(1)	**(45.2)%**	**(4.5)%**	**(36.0)%**	**(5.5)%**
Adjusted EBITDA Margin	**(39.1)%**	**1.8%**	**(30.1)%**	**(3.4)%**

(1) Net loss divided by revenue.

For the three months ended September 30, 2021, Adjusted EBITDA and Adjusted EBITDA Margin decreased to a $13.3 million loss or (39.1)%, respectively, from $0.9 million or 1.8% in the same period of 2020, respectively. This reflects a $13.4 million decrease in Adjusted Gross Profit discussed below, increased travel, meals and entertainment due to the easing of COVID-19 restrictions and the estimated $0.3 million impact of a strengthening of the Canadian dollar on Canadian-based operating expenses, excluding depreciation and stock-based compensation, compared to the prior year period.

For the nine months ended September 30, 2021, Adjusted EBITDA and Adjusted EBITDA Margin decreased to a $31.5 million loss or (30.1)%, respectively, from a $4.4 million loss or (3.4)% in the same period of 2020, respectively. This reflects a $26.7 million decrease in Adjusted Gross Profit and $0.3 million in lower costs of underutilized capacity, discussed below, higher salary and wage expenses reflecting the cumulative effect of hires in line with our strategic plan, increased stock-based compensation expenses as well as the estimated $2.1 million impact of a stronger Canadian dollar on Canadian-based operating expenses, excluding depreciation and stock-based compensation. Reductions in Adjusted EBITDA were partially offset by lower professional fees, reduced commissions and cost reductions as a result of reduced activity related to COVID-19. Additionally, in the first nine months of 2020, we increased our provision for expected credit losses by $0.6 million.

Adjusted Gross Profit and Adjusted Gross Profit Margin for the Three and Nine Months Ended September 30, 2021 and 2020

The following table presents a reconciliation for the three months and nine months ended September 30, 2021 and 2020 of Adjusted Gross Profit to our gross profit, which is the most directly comparable GAAP measure for the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	($ in thousands)		($ in thousands)	
Gross profit	2,450	16,212	15,044	41,743
Gross profit margin	7.2%	35.1%	14.4%	32.3%
Add: Depreciation and amortization expense	2,321	1,959	6,383	6,128
Add: Costs of under-utilized capacity	-	-	1,756	2,010
Adjusted Gross Profit	4,771	18,171	23,183	49,881
Adjusted Gross Profit Margin	14.0%	39.3%	22.1%	38.6%

Gross profit and gross profit margin decreased to $2.5 million or 7.2% for the three months ended September 30, 2021, from $16.2 million or 35.1% for the three months ended September 30, 2020. Adjusted Gross Profit and Adjusted Gross Profit Margin decreased to $4.8 million or 14.0% for the three months ended September 30, 2021, from $18.2 million or 39.3% for the three months ended September 30, 2020.

The decrease was largely due to the impact of fixed costs on lower revenues. Approximately $7.2 million of our quarterly costs are fixed, related primarily to rent, utilities and other production overhead costs and including $0.8 million of incremental costs related to our new South Carolina Facility. Furthermore, at these revenue levels, our manufacturing workforce, which would normally be variable, is effectively fixed. While we have reduced our manufacturing workforce by 28% since December 31, 2019, including a 5% workforce reduction in the third quarter of 2021, our current staffing levels are required to ensure we can deliver to our customer lead times given inter-week variability in production volumes. Inflationary pressure on the costs of our raw material inputs and transportation continued in the third quarter of 2021, reducing our gross profit margin by approximately 10% over the same period of 2020. As previously discussed, effective November 16, 2021, we are increasing prices on new orders by approximately 6.5% to effectively offset these cost increases. A stronger Canadian dollar on Canadian-based manufacturing costs negatively impacted gross margin by approximately $0.5 million. The three months ended September 30, 2020 included a $0.5 million reversal of a timber provision that did not reoccur in 2021.

Gross profit and gross profit margin decreased to $15.0 million or 14.4% for the nine months ended September 30, 2021, from $41.7 million or 32.3% for the nine months ended September 30, 2020. Adjusted Gross Profit and Adjusted Gross Profit Margin decreased to $23.2 million or 22.1% for the nine months ended September 30, 2021, from $49.9 million or 38.6% for the nine months ended September 30, 2020. The decrease was largely due to the impact of fixed costs, including manufacturing labor, on lower revenues, as discussed above, as well as realized increases in material, transportation and packaging costs which reduced our gross profit margin by approximately 6%. Fixed costs included approximately $1.7 million of incremental costs related to our new South Carolina Facility. Gross margin was negatively impacted by $2.1 million due to a stronger Canadian dollar on Canadian-based manufacturing costs. In addition, the nine months ended September 30, 2020 included a $1.8 million reversal of a timber provision that did not reoccur in 2021.

During the fourth quarter of 2019, we determined that we were carrying abnormal excess capacity in our manufacturing facilities as a result of the slowdown in sales and determined certain production overheads should be directly expensed in cost of sales, representing production overheads that were not attributable to production. In the first quarter of 2020, we separately classified $2.0 million as costs related to our under-utilized capacity (4.9% first quarter and 1.5% for the nine month period ended September 30, 2020 of gross profit margin) in cost of sales. We took steps to manage our excess capacity, including the reduction in staffing by 14%, with a further 12% reduction in April 2020 for a total reduction of 25% from prior year levels, and the undertaking of planned factory curtailments. The staffing reductions realigned our capacity with expected activity levels; however, our fixed costs continued to affect our Adjusted Gross Profit Margin, which we expect to remain below historical percentages until sales improve. In the first quarter of 2021, we experienced the full impact of the slowdown in non-residential construction activity on our business. In anticipation of a recovery in demand for our products and services and to preserve our skilled workforce, we deliberately maintained manufacturing headcount, while implementing selective furlough days, in the first quarter of 2021 despite the shortfall in revenues relative to capacity. As a result, in the first quarter of 2021 we separately classified $1.8 million as costs related to our under-utilized capacity (6.0% first quarter and 2% for the nine month period ended September 30, 2021 of gross profit margin) in cost of sales. In the second and third quarters of 2021, we did not have abnormal excess capacity as our workforce was better aligned with current production volumes.

Following the completion of third party testing in 2019, we determined that timber included in certain projects installed between 2016 and 2019 potentially did not meet the fire-retardant specifications under which the projects were sold. As a result, we recorded a $2.5 million provision in the fourth quarter of 2019 and began contacting customers to determine whether remedial actions were required. In the second quarter of 2020, we identified and validated an in-situ solution that we believe will meet the fire-retardant specification under which the projects were sold and accordingly reduced the associated provision to $1.3 million, which represents expected costs to prepare impacted sites and apply the in-situ solution. In the third quarter of 2020, we completed building code reviews of the affected projects and determined that the timber as installed met the requisite building code requirements as it related to fire retardance. As a result, we further reduced our timber provision by $0.5 million in the third quarter of 2020 as we believe this reduced any obligation to remediate previously installed projects. Additionally, we entered into agreements with certain customers to compensate them for product charges not fulfilled. During the nine month period ended September 30, 2021, we incurred no costs (2020 – $0.1 million) associated with remediating previously installed timber projects.

Results of Operations

Three and Nine Months Ended September 30, 2021, Compared to Three and Nine Months Ended September 30, 2020

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
	($ in thousands)			($ in thousands)		
Revenue	34,098	46,179	(26)	104,665	129,315	(19)
Gross Profit	2,450	16,212	(85)	15,044	41,743	(64)
Gross Profit Margin	7.2%	35.1%		14.4%	32.3%	
Operating Expenses						
Sales and Marketing	7,536	6,933	9	21,770	20,518	6
General and Administrative	7,546	6,903	9	22,567	20,922	8
Operations Support	2,374	2,347	1	6,884	7,130	(3)
Technology and Development	2,146	1,959	10	6,005	6,206	(3)
Stock-based Compensation	837	714	17	3,792	1,600	137
Total Operating Expenses	20,439	18,856	8	61,018	56,376	8
Operating Loss	(17,989)	(2,644)	580	(45,974)	(14,633)	214
Operating Margin	(52.8)%	(5.7)%		(43.9)%	(11.3)%	

Revenue

Revenue reflects sales to our Distribution Partners for resale to their clients and, in limited circumstances, our direct sales to clients. Our revenue is generally affected by the timing of when orders are executed, particularly large orders, which can add variability to our financial results and shift revenue between quarters. The following table sets forth the contribution to revenue of our DIRTT product and service offerings:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
	($ in thousands)			($ in thousands)		
Product	29,569	40,212	(26)	91,867	113,131	(19)
Transportation	3,294	4,179	(21)	9,277	11,719	(21)
License fees from Distribution Partners	191	330	(42)	539	935	(42)
Total product revenue	33,054	44,721	(26)	101,683	125,785	(19)
Installation and other services	1,044	1,458	(28)	2,982	3,530	(16)
	34,098	46,179	(26)	104,665	129,315	(19)

Our sales activity and associated revenues continue to be impacted by the severe economic and social impact of the COVID-19 pandemic since March 2020, including a major contraction in construction activity levels in North America due to work-from-home requirements, lock-down measures and other regulatory responses implemented by governments and public health officials. While we did not experience any material cancellations of projects that were underway at the start of the COVID-19 pandemic, it is uncertain as to the impact of the pandemic, including effects of resurgent infection rates due to variants, on future projects that are either in the planning or conceptual stage. It is highly likely that future projects will also experience similar delays as the COVID-19 pandemic runs its course. See Item 1A. "Risk Factors".

Revenue decreased in the three months ended September 30, 2021 by $12.1 million or 26% compared to the same period of 2020. The combination of a resurgence in COVID-19 infection rates in late August and September 2021 due to the Fourth Wave and upstream supply chain issues resulted in delays of projects scheduled to ship in the third quarter of 2021 to the fourth quarter of 2021 and into 2022. Consequently, September revenues were the second lowest that we have experienced since the commencement of the pandemic. We have not incurred any material project cancellations and experienced a 50% sequential increase in October 2021 revenues over September 2021 levels as discussed further above in "Outlook."

Revenue decreased in the nine months ended September 30, 2021 by $24.7 million or 19% compared to the same period of 2020, driven largely by reduced sales activity in the first quarter of 2021 and project delays in the third quarter of 2021 as described above. Throughout 2020, we were able to mitigate the COVID-19 induced slowdown in overall construction activity through the completion of projects that were in progress when the pandemic started. With most of these projects delivered by the end of the fourth quarter of 2020, the first quarter of 2021 was the low point for sales, reflecting the full impact of the slowdown in non-residential construction activity on DIRTT's business. Second quarter 2021 revenues returned to 2020 levels, driven largely by increased activity with a large strategic health care provider and the delivery of COVID-19 vaccination trailers. While third quarter 2021 revenues were adversely impacted by project delays, they were $4.6 million higher than first quarter 2021 revenues.

We have made substantial improvements to our commercial function, as outlined in our strategic plan, including building an appropriate organizational structure, improving the effectiveness of our existing sales force, attracting new sales talent, establishing strategic marketing and lead generation functions, as well as expanding and better supporting our Distribution Partner network. While we believe these actions are critical to driving long-term, sustainable growth, particularly as the recovery from the COVID-19 pandemic commences, these actions did not have a measurable effect on 2021 revenues in light of the severe economic adversity caused by the pandemic. Additionally, in response to significant increases in the costs of raw materials, shipping materials and freight, effective November 16, 2021, DIRTT will increase product and transportation prices on new projects by approximately 6.5%.

Installation and other services revenue was $1.0 million and $3.0 million for the three and nine months ended September 30, 2021 compared to $1.5 million and $3.5 million in the same period of 2020, respectively. The changes in installation and other services revenue are primarily due to the timing of projects. Except in limited circumstances, our Distribution Partners, rather than the Company, perform installation services, and accordingly, we are not anticipating significant growth in this revenue stream.

Our success is partly dependent on our ability to profitably develop our Distribution Partner network to expand our market penetration and ensure best practices are shared across local markets. At September 30, 2021, we had 71 Distribution Partners servicing multiple locations. During 2020 and 2021, we made several changes and upgrades to our Distribution Partner network, expanding our relationships with new and existing partners and ending our relationships with others. Our clients, as serviced primarily through our Distribution Partners, exist within a variety of industries, including healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, technology and hospitality.

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
	($ in thousands)			($ in thousands)		
Commercial	20,805	22,617	(8)	55,981	75,987	(26)
Healthcare	5,017	15,880	(68)	25,680	28,360	(9)
Government	3,149	2,762	14	11,579	9,849	18
Education	3,892	3,132	24	7,904	10,654	(26)
License fees from Distribution Partners	191	330	(42)	539	935	(42)
Total product revenue	33,054	44,721	(26)	101,683	125,785	(19)
Service revenue	1,044	1,458	(28)	2,982	3,530	(16)
	34,098	46,179	(26)	104,665	129,315	(19)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in %)		(in %)	
Commercial	63	51	56	61
Healthcare	15	36	25	23
Government	10	6	11	8
Education	12	7	8	8
Total Product Revenue[(1)]	100	100	100	100

(1) Excludes license fees from Distribution Partners.

Revenue decreased by 26% and 19% in the three and nine months ended September 30, 2021 over the same period in 2020, and was driven primarily by delays in commercial projects scheduled to ship in the third quarter to the fourth quarter and 2022 as a result of the impact of the Fourth Wave and ongoing upstream supply chain issues on overall construction schedules. Commercial revenues decreased by 8% and 26%, respectively, from the prior period, due largely to the severe impact of COVID-19 on commercial construction activities in North America since March 2020, particularly in the first and third quarters of 2021 as described in more detail above. Healthcare sales tend to be larger individual projects and are subject to timing due to a typically longer sales cycle, resulting in variability in sales levels on a quarter-over-quarter basis. Third quarter and year-to-date 2021 healthcare sales were 68% and 9% lower, respectively, due primarily to the timing of projects with the 2020 period including three large projects of $2.0 million each that did not re-occur in 2021. Education sales in the third quarter of 2021 increased by 24% over the prior period, but on a year-to-date basis decreased by 26% from 2020. At the beginning of the pandemic, education spending effectively paused with many institutions suspending in-person classes. With the resumption of in-person instruction in many jurisdictions in the fall of 2021, we are beginning to see resumption of investment activity in this segment.

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
	($ in thousands)			($ in thousands)		
Canada	4,405	4,340	1	11,860	14,667	(19)
U.S.	29,693	41,839	(29)	92,805	114,648	(19)
	34,098	46,179	(26)	104,665	129,315	(19)

Historically, approximately 15-25% and 75-85% of revenues are derived from sales to Canada and the United States, respectively. In 2020 and 2021, revenues from Canada fell to 11% of total sales while sales to the United States increased to 89%, reflecting the impact of pandemic related restrictions on activity levels in the related jurisdictions, including the effects of the Fourth Wave on activity in the US in the third quarter of 2021.

Sales and Marketing Expenses

Sales and marketing expenses increased by $0.6 million and $1.3 million to $7.5 million and $21.8 million for the three and nine months ended September 30, 2021, respectively, from $6.9 million and $20.5 million for the three and nine months ended September 30, 2020, respectively. The increases were largely related to increased salary and wage expenses as we continue to build our sales organization, $0.3 million and $0.9 million for the third quarter and year-to-date, respectively, due to staff transferred from technology and development to sales and marketing and higher depreciation expense as we completed our Chicago DXC in 2020, offset by lower commission expense. Travel, meals and entertainment expenses were lower on a year-to-date basis, but increased in the second and third quarters compared to the first quarter as restrictions on travel have eased. As economies re-open, we anticipate travel, meals and entertainment expenses will increase over current levels, the timing and amount of such expenses, however, are indeterminate at this time.

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

General and Administrative Expenses

General and administrative expenses increased by $0.6 million and $1.7 million to $7.5 million and $22.6 million for the three and nine months ended September 30, 2021, respectively from $6.9 million and $20.9 million for the three and nine months ended September 30, 2020, respectively.

For the quarter ended September 30, 2021, the increase was the result of the impact of the stronger Canadian dollar on our cost structure, higher salaries and benefits expenses, and professional fees, partially offset by decreased variable compensation expense. The nine months ended September 30, 2021 increased due to higher salaries and benefits expenses, inclusive of a one-time severance costs, partially offset by a reduction in professional service costs and a $0.6 million credit loss recorded in the first quarter of 2020 that was not repeated in 2021.

Operations Support Expenses

Operations support is comprised primarily of project managers, order entry and other professionals that facilitate the integration of our Distribution Partner project execution and our manufacturing operations. Operations support expenses of $2.4 million in the third quarter of 2021 were consistent with $2.3 million in the same period of 2020. For the nine months ended September 30, 2021, operations support expenses decreased $0.2 million to $6.9 million from $7.1 million for the nine months ended September 30, 2020, reflecting increased capitalized labor on internal projects in the period.

Technology and Development Expenses

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

Technology and development expenses increased by $0.1 million and decreased by $0.2 million to $2.1 million and $6.0 million for the three and nine months ended September 30, 2021, respectively, from $2.0 million and $6.2 million for the three and nine months ended September 30, 2020, respectively, primarily related to a decrease in capitalized software development costs offset by Technology and Development staff transferred to Sales and Marketing.

Stock-Based Compensation

Stock-based compensation expense for the three and nine months ended September 30, 2021 was $0.8 and $3.8 million, respectively, compared to $0.7 million and $1.6 million for the same respective periods of 2020. The increase was largely due to grants of restricted share units and deferred share units and impacted by fair value adjustments on cash settled awards as a result of share price decreases and increases during the three and nine months ended September 30, 2021, respectively.

Government Subsidies

During the three and nine months ended September 30, 2021, the Company recorded $2.9 million and $10.4 million of government subsidies, respectively (2020 – $4.5 million and $8.8 million for the three and nine month periods respectively). Of these amounts, $1.5 million was receivable at September 30, 2021 and is expected to be received in the fourth quarter of 2021.

As part of the Canadian federal government's COVID-19 Economic Response Plan, the Canadian government established the CEWS, providing the Company with a taxable subsidy in respect of a specific portion of wages paid to Canadian employees during qualifying periods extending from March 15, 2020 to October 23, 2021**,** based on the percentage decline of certain of the Company's Canadian-sourced revenues during each qualifying period. Pursuant to changes enacted as part of the 2021 Canadian federal budget, the Company may be required to repay all or a portion of the CEWS amounts for any qualifying period commencing after June 5, 2021 where the aggregate compensation for specified executives during the 2021 calendar year exceeds the aggregate compensation for specified executives during the 2019 calendar year. The Company's eligibility for the CEWS may change for each qualifying period and is reviewed by the Company for each qualifying period. On November 19, 2020, the Canadian government also implemented the CERS, which provides a taxable subsidy to cover eligible expenses for qualifying properties, subject to certain maximums, for qualifying periods extending from September 27, 2020 to October 23, 2021, with the amount of the subsidy based on the percentage decline of the Company in certain of its Canadian-sourced revenues in each qualifying period. The Company's eligibility for the CERS may change for each qualifying period and is reviewed by the Company for each qualifying period. The CEWS and CERS programs expired on October 23, 2021.

Income Tax

The provision for income taxes is comprised of U.S. and Canadian federal, state and provincial taxes based on pre-tax income. Income tax expense for the three months ended September 30, 2021 was $0.1 million, compared to $3.4 million for the same period of 2020 and income tax expense for the nine months ended September 30, 2021 was $0.3 million as compared to $2.2 million for the same period of 2020. For the three and nine month periods ended September 30, 2021, the Company recorded valuation allowances of C$4.5 million and C$10.8 million, respectively against deferred tax assets due to ongoing near term uncertainties on the business caused by the COVID-19 pandemic and the related decline in business activity which impacted our ability to generate sufficient taxable income in Canada to fully deduct historical losses. As at September 30, 2021, we had C$92.5 million of loss carry-forwards in Canada and none in the United States. These loss carry-forwards will begin to expire in 2032.

Net Loss

Net loss increased to $15.4 million or $0.18 net loss per share in the third quarter of 2021 from net loss of $2.1 million or $0.02 net loss per share for the third quarter of 2020. The increased loss is primarily the result of a $13.7 million decrease in gross profit, a $1.6 million increase in operating expenses, a $1.6 million reduction of government subsidies and a $0.7 increase in interest expense. These decreases were partially offset by a $3.3 million decrease in income tax expense and a $1.0 million reduction in foreign exchange losses.

Net loss increased to $37.7 million or $0.44 net loss per share in the nine months ended September 30, 2021 from a net loss of $7.1 million or $0.08 net loss per share for the nine months ended September 30, 2020. The increased loss is primarily the result of a $26.7 million decrease in gross profit, a $4.6 million increase in operating expenses, a $0.6 million decrease in foreign exchange gains, a $1.9 million increase in interest expense as a result of the Debentures issued in January 2021 and draws on the Leasing Facilities. These decreases were partially offset by a $1.8 million decrease in income tax expense and a $1.6 million increase in government subsidies.

Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2021 totaled $43.3 million, a decrease of $2.5 million from December 31, 2020. The change in cash primarily reflects the impact of $29.5 million of net proceeds from the issuance of the Debentures in January 2021 and $8.4 million of drawings under our Leasing Facilities, offset by cash used in operations of $24.3 million, capital expenditures of $12.2 million and scheduled Leasing Facilities repayments of $1.2 million.

In January 2021, we issued C$40.3 million of the Debentures for net proceeds after costs of C$37.6 million ($29.5 million). The 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 will be repayable on January 31, 2026.

In February 2021, we entered into a loan agreement governing a C$25.0 million senior secured revolving credit facility with RBC. Under the RBC Facility, the Borrowing Base is a maximum of 90% of investment grade or insured accounts receivable plus 85% of eligible accounts receivable plus the lesser of 75% of the book value of eligible inventory and 85% of the net orderly liquidation value of eligible inventory less any reserves for potential prior ranking claims. Under the RBC Facility, at September 30, 2021 available borrowings are C$8.3 million or $6.5 million.

The Company has a C$5.0 million Canada Leasing Facility of which C$3.6 million ($2.8 million) has been drawn, and a $14.0 million U.S. Leasing Facility of which $11.9 million has been drawn with RBC and one of its affiliates. The Leasing Facilities are available for equipment expenditures and certain equipment expenditures already incurred. We anticipate drawing an additional two to three million on our Leasing Facilities during the remainder of 2021.

In light of the uncertainty caused by the near and potential mid-term impacts of COVID-19, we have evaluated multiple downside scenarios and have implemented cost control and expenditure management processes. While the previously discussed project delays and their impacts on the third quarter of 2021 resulted in a significant usage of cash reserves, the combination of a rebound in sales activity early in the fourth quarter of 2021, our current sales outlook for 2022 and our cash reserves and available credit facilities lead us to believe that we have sufficient liquidity for at least the next twelve months. We assess our financial strength on an ongoing basis and may seek additional financing to bolster our balance sheet to mitigate the risk of ongoing delays in sales recovery.

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

Since our inception, we have financed operations primarily through cash flows from operations, long-term debt, and the sale of equity securities. Over the past three years, we have funded our operations and capital expenditures through a combination of cash flow from operations, long-term debt, and cash on hand. We had no amounts outstanding under the RBC Facility as of September 30, 2021 and $13.1 million outstanding under the Leasing Facilities as of September 30, 2021.

The following table summarizes our consolidated cash flows for the three and nine months ended September 30, 2021 and 2020:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	($ in thousands)		($ in thousands)	
Net cash flows provided by (used in) operating activities	(12,251)	5,778	(24,259)	7,395
Net cash flows used in investing activities	(2,150)	(3,262)	(12,169)	(9,679)
Net cash provided by (used in) financing activities	(520)	3,455	36,083	5,982
Effect of foreign exchange on cash, cash equivalents and restricted cash	(130)	103	581	(172)
Net increase (decrease) in cash, cash equivalents and restricted cash	(15,051)	6,074	236	3,526
Cash, cash equivalents and restricted cash, beginning of period	61,133	44,626	45,846	47,174
Cash, cash equivalents and restricted cash, end of period	46,082	50,700	46,082	50,700

Operating Activities

Net cash flows used in operating activities were $12.3 million for the three months ended September 30, 2021 and $24.3 million used in operating activities for the nine months ended September 30, 2021 compared to $5.8 million and $7.4 million net cash flows provided by operating activities in the same periods of 2020. The decrease in cash flows from operations is largely due to a decrease in gross profit, lower accounts payable and accrued liabilities and lower government subsidies, partially offset by an increase in other liabilities and a decrease in trade and other receivables.

Investing Activities

We invested $1.8 million and $10.5 million in property, plant and equipment during the three and nine months ended September 30, 2021, respectively, compared to $2.6 million and $7.4 million during the three and nine months ended September 30, 2020, respectively.

Our investments during the nine month period ended September 30, 2021 included $3.6 million in costs to complete the construction of the South Carolina Facility, and $3.7 million of investment in our new DXC in Plano Texas. These investments are substantially complete and until pre-COVID revenues return, no new significant capital projects are planned. Maintenance capital expenditures for the nine month period ended September 30, 2021 were $2.5 million, which includes new equipment to complete our transition to one-piece flow manufacturing in our aluminum plants as well as equipment necessary to ensure business continuity in our aluminum plants, and investing cash flows includes $0.7 million of our reported cash expenditure relates to account payable related to 2020 spending. We anticipate maintenance capital requirements to be lower in future periods as there are no significant projects ongoing at this time. During the nine month period ended September 30, 2020 our spending included $4.6 million related to the construction of the South Carolina Facility, $2.7 million on our Chicago DXC, $2.2 million of maintenance capital, and investing cash flows were reduced by $2.1 million of accounts payable to be paid at September 30, 2020.

Software development for the three and nine month periods ended September 30, 2021 were $0.5 million and $1.9 million, respectively, a decrease compared to $0.9 million and $2.8 million for the three and nine month periods ended September 30, 2020. Software development expenditure primarily consists of the capitalization of salaries of our software development team members. We expect the level of expenditure to be consistent with the current year, and any fluctuations will increase or decrease technology and development expenditures on the statement of operations.

Financing Activities

For the three and nine months ended September 30, 2021, $0.5 million of cash was used in financing activities and $36.1 million of cash was provided by financing activities, respectively, mainly due to the proceeds received from the issuance of C$40.3 million ($29.5 million) of Debentures in January 2021 and the receipt of $8.4 million of cash consideration under the U.S. Leasing Facility, which was used to finance equipment purchases for our new South Carolina Facility were largely paid for in installments in 2019 and 2020. Cash provided by financing activities for the three and nine months ended September 30, 2020 was $3.5 million and $6.0 million, respectively, entirely comprised of draws and repayments under the Leasing Facilities.

We currently expect to fund anticipated future investments with available cash, including the proceeds from our issuance of Debentures and drawings on our Leasing Facilities. We expect to draw approximately two to three million on our Leasing Facilities in the fourth quarter of 2021, dependent on the timing of equipment commissioning which has been impacted by shipping constraints. Apart from cash flow from operations, issuing equity and debt has been our primary source of capital to date. Additional debt or equity financing may be pursued in the future as we deem appropriate. We may also use debt or pursue equity financing depending on the share price at the time, interest rates, and nature of the investment opportunity and economic climate.

Credit Facility

On February 12, 2021, the Company entered into the RBC Facility. Under the RBC Facility, the Borrowing Base is up to a maximum of 90% of investment grade or insured accounts receivable plus 85% of eligible accounts receivable plus the lesser of 75% of the book value of eligible inventory and 85% of the net orderly liquidation value of eligible inventory less any reserves for potential prior ranking claims. At September 30, 2021, available borrowings are C$8.3 million ($6.5 million), of which no amounts have been drawn. Interest is calculated at the Canadian or U.S. prime rate plus 30 basis points or at the Canadian Dollar Offered Rate or LIBOR plus 155 basis points. Under the RBC Facility, if the Aggregate Excess Availability, defined as the Borrowing Base less any loan advances or letters of credit or guarantee and if undrawn including unrestricted cash is less than C$5.0 million, the Company is subject to a FCCR covenant of 1.10:1 on a trailing twelve month basis. Additionally, if the FCCR has been below 1.10:1 for the 3 immediately consecutive months, the Company is required to maintain a reserve account equal to the aggregate of one year of payments on outstanding loans on the Leasing Facilities. The Company did not meet the 3 month FCCR requirement during the third quarter of 2021 which resulted in requiring the restriction of $2.8 million of cash. Should an event of default occur or the Aggregate Excess Availability be less than C$6.25 million for 5 consecutive business days, the Company would enter a cash dominion period whereby the Company's bank accounts would be blocked by RBC and daily balances will set-off any borrowings and any remaining amounts made available to the Company.

During 2020, the Company entered into the Leasing Facilities, consisting of the C$5.0 million Canada Leasing Facility and the $14.0 million U.S. Leasing Facility with RBC, which are available for equipment expenditures and certain equipment expenditures already incurred. The Leasing Facilities, respectively, have seven and five-year terms and bear interest at 4.25% and 5.27%. The U.S. Leasing Facility is amortized over a six-year term and is extendible at the Company's option for an additional year.

The Company has drawn $11.9 million of cash consideration under the U.S. Leasing Facility and commenced the lease term in 2020 for the equipment at the South Carolina Facility. The Company has drawn C$3.6 million ($2.8 million) of cash consideration under the Canada Leasing Facility and commenced the lease term for the Canadian equipment expenditures during 2020.

We are restricted from paying dividends unless Payment Conditions (as defined in the RBC Facility) are met, including having a net borrowing availability of at least C$10 million over the proceeding 30 day period, and having a trailing twelve month fixed charge coverage ratio above 1.10:1 and certain other conditions.

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

Contractual Obligations

There have been no material changes in our contractual obligations during the nine months ended September 30, 2021, as compared to those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" in our Annual Report on Form 10-K. See Note 12, "Commitments" to our interim condensed consolidated financial statements in this Quarterly Report for additional information.

Significant Accounting Policies and Estimates

There have been no material changes in our significant accounting policies during the nine months ended September 30, 2021, as compared to those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies and Estimates" in our Annual Report on Form 10-K. For information regarding significant accounting policies and estimates, please refer to Item 7 and Item 8 in our

Annual Report on Form 10-K. As disclosed in Note 4, "Adoption of New and Revised Accounting Standards" to our condensed consolidated interim financial statements appearing in this Quarterly Report, we adopted Accounting Standards Update No. 2020-06, "*Debt – Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)"*. The Company had no convertible debt instruments outstanding at December 31, 2020 and the Debentures issued in January 2021 have been evaluated under this new guidance and there were no other transitional impacts to consider. The methodology now applied has been explained in Note 6 and the impact on diluted earnings per share has been reflected in Note 7.

Recent Accounting Pronouncements

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

Item 3. Controls and Procedures

Disclosure Controls and Procedures

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

As required by 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 September 30, 2021. Based upon their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We continue to pursue multiple lawsuits against our former founders, Mogens Smed and Barrie Loberg, their new company Falkbuilt Ltd. ("Falkbuilt"), and other related individual and corporate defendants for violations of fiduciary duties and non-competition and non-solicitation covenants contained in their DIRTT 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.

Our litigation against Falkbuilt, Messrs. Smed and Loberg, and their associates is currently comprised of four main lawsuits: (i) an action in the Alberta Court of Queen'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"); (iii) an action for federal patent infringement in the U.S. District Court for the Northern District of Illinois instituted on August 6, 2020 against Falkbuilt, alleging that Falkbuilt infringes certain of DIRTT's patents relating to our proprietary ICE® software (the "Patent Infringement Case"); and (iv) a new action instituted on June 24, 2021 in the U.S. District Court for the Northern District of Texas 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").

In the Canadian Non-Compete Case, we are seeking, among other things, an order stopping the defendants from unlawfully competing with us, and payment of lost revenue and damages. We recently began questioning key defendants and witnesses, including defendants Smed and Loberg. We are pleased with the results of the questioning to date and believe they give strong support to our allegations. We intend to continue to pursue the case vigorously.

In the Utah Misappropriation Case, we have filed a Rule 60 motion to set aside the previously granted order to dismiss a portion of the case under the doctrine of *forum non conveniens*. DIRTT's Rule 60 motion alleges, among other things, that the defendants withheld documents that demonstrate that a dismissal for *forum non conveniens* was incorrect. In addition, we have appealed the partial dismissal to the U.S. Court of Appeals for the Tenth Circuit. Both the appeal and the remaining portion of the Utah Misappropriation Case are currently stayed pending resolution of the Rule 60 motion.

In the Patent Infringement Case, we are seeking, among other things, an order enjoining Falkbuilt from infringing our patents and damages for past or continuing infringement. Recently, Falkbuilt was unsuccessful in attempting to initiate an *inter partes* review and post grant review of DIRTT's subject patents. The Patent Office found that Falkbuilt had not shown it would be likely to succeed in its invalidity challenges to the DIRTT patents. Following those denials, the U.S. District Court has ordered Falkbuilt to produce discovery regarding DIRTT's claims.

In the Texas Unfair Competition Case, DIRTT alleges violations of the U.S. Lanham Act, the Texas Uniform Trade Secrets Act, the Federal Defend Trade Secrets Act, the Pennsylvania Unform Trade Secrets Act, the Colorado Consumer Protection Act, and the Ohio Deceptive Practices Act, and is seeking preliminary and permanent injunctive relief to restrain Falkbuilt from using or disclosing DIRTT confidential business information in the United States, and awards of compensatory damages, exemplary damages, and attorneys' fees.

No amounts are accrued for the potential outcomes of the above legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors and other cautionary statements described under the heading "Risk Factors" included in our Annual Report on Form 10-K, as supplemented by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2021 and June 30, 2021, filed with the SEC on May 5, 2021 and August 4, 2021, respectively, which could materially affect our businesses, financial condition, or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations.

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

The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption. The extent to which COVID-19, or other public health pandemics or epidemics, impact our employees, operations, customers, suppliers and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the COVID-19 pandemic (and whether there is a resurgence or multiple resurgences of the virus in the future, including as a result of strain variations); the actions taken by governments and public health officials in response to the pandemic; the availability and effectiveness of vaccines, approvals thereof and the speed of vaccine distribution; the impact on construction activity (including related supply chain and labor shortages and their effects on construction schedules and timing); the effect on our customers' demand for our DIRTT Solutions; our ability to manufacture and sell our products; and the ability of our customers to pay for our products. For example, while many of our products support life sustaining activities and essential construction, we, and certain of our customers or suppliers, may be impacted by state or provincial actions, orders and policies regarding the COVID-19 pandemic, including temporary closures of non-life sustaining businesses, shelter-in-place orders, and travel, social distancing and quarantine policies, the implementation and enforcement of which may vary by individual jurisdictions. On September 9, 2021, President Biden issued executive orders establishing new vaccination requirements applicable to U.S. federal workers and contractors, large employers and healthcare workers. Subject to limited exceptions, U.S. employees of federal contractors are required to be fully vaccinated against COVID-19 by December 8, 2021. As a federal contactor, we are subject to the executive order and have implemented mandatory vaccination rules for all U.S. employees and subcontractors to satisfy the requirements by December 8, 2021. Further, additional vaccine mandates may be announced in jurisdictions in which our businesses operate. Our implementation of these rules may result in attrition, including attrition of skilled labor, and difficulty securing future labor needs. Additionally, our implementation of these rules may impact our ability to maintain satisfactory arrangements with third-party vendors and service providers, to the extent they are subject to the vaccination requirements and they or their employees are unable or unwilling to comply. Any of the foregoing events could have a material adverse effect on our business, liquidity or results of operations.

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

Use of Proceeds

On January 11, 2021, we commenced the underwritten public offering of C$35.0 million aggregate principal amount of the Debentures (the "Offering"). The Debentures were offered to the public pursuant to an Underwriting Agreement dated January 11, 2021, by and among DIRTT, National Bank Financial Inc., Craig-Hallum Capital Group LLC, Raymond James Ltd. and Paradigm Capital Inc., with National Bank Financial Inc. as lead manager and book-runner. The Offering was completed on January 25, 2021. On January 29, 2021, we issued a further C$5.25 million of Debentures under the terms of an overallotment option granted to the underwriters.

The offer and sale of the Debentures in the U.S. were registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to a registration statement on Form S-3, as amended (File No. 333-251660), which was declared effective by the SEC on January 6, 2021, and the offer and sale of the Debentures in Canada (excluding Quebec) were registered pursuant to a short form prospectus under Canadian law. The Debentures are convertible into common shares of DIRTT.

The net proceeds from the Offering were C$37.6 million ($29.5 million), after deducting C$2.7 million of transaction costs which includes the underwriters' commission and directly attributable professional fees. The Company expects to use a portion of the net proceeds from the Offering, together with borrowings under the Leasing Facilities and cash reserves on hand, for capital expenditures, including investments in the Company's technology.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.