These financial statements for DIRTT Environmental Solutions Ltd. are also included in the Form 10-Q for the quarterly period ended March 31, 2022 filed on SEDAR on May 4, 2022 in its entirety.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

DIRTT Environmental Solutions Ltd.
Interim Condensed Consolidated Balance Sheets
(Unaudited – Stated in thousands of U.S. dollars)

	As at March 31, 2022	As at December 31, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	38,861	60,313
Restricted cash	3,224	3,095
Trade and other receivables, net of expected credit losses of $0.1 million at March 31, 2022 and at December 31, 2021	22,590	17,540
Inventory	22,114	18,457
Prepaids and other current assets	4,497	4,399
Total Current Assets	**91,286**	**103,804**
Property, plant and equipment, net	48,742	51,697
Capitalized software, net	6,709	7,395
Operating lease right-of-use assets, net	31,932	30,880
Other assets	5,787	5,663
Total Assets	**184,456**	**199,439**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	24,437	22,751
Other liabilities	2,359	2,379
Customer deposits and deferred revenue	5,768	2,420
Current portion of long-term debt and accrued interest	3,321	3,323
Current portion of lease liabilities	6,113	6,214
Total Current Liabilities	**41,998**	**37,087**
Long-term debt	67,673	67,319
Long-term lease liabilities	28,487	27,267
Total Liabilities	**138,158**	**131,673**
SHAREHOLDERS' EQUITY		
Common shares, unlimited authorized without par value, 85,832,977 issued and outstanding at March 31, 2022 and 85,345,433 at December 31, 2021	182,985	181,782
Additional paid-in capital	13,147	13,200
Accumulated other comprehensive loss	(15,483)	(15,916)
Accumulated deficit	(134,351)	(111,300)
Total Shareholders' Equity	**46,298**	**67,766**
Total Liabilities and Shareholders' Equity	**184,456**	**199,439**

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

DIRTT Environmental Solutions Ltd.
Interim Condensed Consolidated Statement of Operations
(Unaudited - Stated in thousands of U.S. dollars)

	For the Three Months Ended March 31,	
	2022	2021
Product revenue	37,451	28,542
Service revenue	835	923
Total revenue	**38,286**	**29,465**
Product cost of sales	34,607	23,551
Costs of under-utilized capacity	-	1,756
Service cost of sales	392	788
Total cost of sales	**34,999**	**26,095**
Gross profit	**3,287**	**3,370**
Expenses		
Sales and marketing	7,228	6,670
General and administrative	7,993	7,241
Operations support	2,498	2,297
Technology and development	2,140	1,935
Stock-based compensation	1,302	1,094
Reorganization	3,692	-
Total operating expenses	**24,853**	**19,237**
Operating loss	**(21,566)**	**(15,867)**
Government subsidies	575	4,068
Foreign exchange loss	(732)	(180)
Interest income	11	19
Interest expense	(1,330)	(500)
	(1,476)	**3,407**
Loss before tax	**(23,042)**	**(12,460)**
Income taxes		
Deferred tax expense	-	39
	-	**39**
Net loss	**(23,042)**	**(12,499)**
Loss per share		
Basic and diluted loss per share	(0.27)	(0.15)
Weighted average number of shares outstanding (in thousands)		
Basic and Diluted	85,451	84,681

Interim Condensed Consolidated Statement of Comprehensive Loss

	For the Three Months Ended March 31,	
	2022	2021
Loss for the period	(23,042)	(12,499)
Exchange differences on translation of foreign operations	433	605
Comprehensive loss for the period	**(22,609)**	**(11,894)**

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

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

	Number of Common shares	Common shares	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
As at December 31, 2020	**84,681,364**	**180,639**	**10,175**	**(17,018)**	**(57,265)**	**116,531**
Stock-based compensation	-	-	796	-	-	796
Foreign currency translation adjustment	-	-	-	605	-	605
Net loss for the period	-	-	-	-	(12,499)	(12,499)
As at March 31, 2021	**84,681,364**	**180,639**	**10,971**	**(16,413)**	**(69,764)**	**105,433**
As at December 31, 2021	**85,345,433**	**181,782**	**13,200**	**(15,916)**	**(111,300)**	**67,766**
Stock-based compensation	-	-	1,339	-	-	1,339
Issued on vesting of RSUs and Share Awards	487,544	1,203	(1,203)	-	-	-
RSUs and Share Awards withheld to settle employee tax obligations	-	-	(189)	-	(9)	(198)
Foreign currency translation adjustment	-	-	-	433	-	433
Net loss for the period	-	-	-	-	(23,042)	(23,042)
As at March 31, 2022	**85,832,977**	**182,985**	**13,147**	**(15,483)**	**(134,351)**	**46,298**

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

DIRTT Environmental Solutions Ltd.
Interim Condensed Consolidated Statement of Cash Flows
(Unaudited – Stated in thousands of U.S. dollars)

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

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

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

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

DIRTT Environmental Solutions Ltd.

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

1. GENERAL INFORMATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, the Financial Statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of the Company, the Financial Statements contain all adjustments necessary, consisting of only normal recurring adjustments, for a fair statement of its financial position as of March 31, 2022, and its results of operations and cash flows for the three months ended March 31, 2022 and 2021. The condensed balance sheet at December 31, 2021, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. These Financial Statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 included in the Annual Report on Form 10-K of the Company as filed with the U.S. Securities and Exchange Commission and applicable securities commission or similar regulatory authorities in Canada. As described in Note 5, the Company adopted ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* effective January 1, 2022. There was no impact of this standard on our disclosures or accounting for government assistance.

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

Principles of consolidation

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

Basis of measurement

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

Seasonality

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

3. COVID-19

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization and has had extraordinary and rapid negative impacts on global societies, workplaces, economies and health systems. The resulting adverse economic conditions have negatively impacted construction activity and consequently DIRTT's business, with significant negative impacts extending through 2021, 2022 and potentially beyond.

While many construction sites remain open and re-opening strategies have been implemented across North America, certain projects have experienced delays, impacted by both the implementation of social distancing and other safety-related measures and the re-emergence of COVID-19 in certain geographic areas. It is not possible to predict the timing and pace of economic recovery, or the resumption of delayed construction activity and related demand, nor is it possible to predict the impact of such developments on the Company's ability to achieve its business objectives.

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

Credit risk

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

Liquidity risk

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

Government subsidies

As part of the Canadian federal government's COVID-19 Economic Response Plan, the Canadian government established the Canadian Emergency Wage Subsidy ("CEWS"). The CEWS provided the Company with a taxable subsidy in respect of a specific portion of wages paid to Canadian employees during qualifying periods extending from March 15, 2020 to October 23, 2021 based on the percentage decline of certain of the Company's Canadian sourced revenues during each qualifying period. The Company's eligibility for the CEWS was subject to change for each qualifying period and was reviewed by the Company for each qualifying period, with amounts being received by the Company for various, but not each, qualifying period. Pursuant to amendments enacted as part of the 2021 Canadian federal budget, the Company is required to repay a portion of the CEWS amounts received for any qualifying period commencing after June 5, 2021 where the aggregate compensation for "specified executives" (within the meaning of the CEWS) during the 2021 calendar year exceeds the aggregate compensation for "specified executives" during the 2019 calendar year. Upon finalization of 2021 compensation to specified executives, approximately C$0.5 million ($0.4 million) of subsidies is expected to be repaid to the Canadian authorities in the second quarter of 2022. The repayment amount was fully provided for in the third quarter of 2021 in accounts payable and accrued liabilities and in the first quarter of 2022 the Company reversed a $0.6 million incremental provision related to this that is no longer necessary.

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

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

Impairment

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

4. REORGANIZATION

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

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

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

5. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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

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

6. TRADE AND OTHER RECEIVABLES

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

In order to manage and assess our risk, management maintains credit policies that include regular review of credit limits of individual receivables and systematic monitoring of aging of trade receivables and the financial wellbeing of our customers. In addition, we acquired trade credit insurance effective April 1, 2020. At March 31, 2022, approximately 82% of our trade accounts receivable are insured, relating to accounts receivables from counterparties deemed creditworthy by the insurer and excluding accounts receivable from government entities, which have arisen since April 1, 2020 when the trade credit insurance became effective.

Our trade balances are spread over a broad Distribution Partner base, which is geographically dispersed. For the three months ended March 31, 2022 no Distribution Partner accounted for greater than 10% of revenue (2021: One Distribution Partner: $3.6 million). In addition, and where possible, we collect a 50% deposit on sales, excluding government and certain other clients.

The Company's aged receivables were as follows**:**

	As at	
	March 31, 2022	**December 31, 2021**
Current	18,167	13,659
Overdue	977	621
	19,144	**14,280**
Less: expected credit losses	(132)	(130)
	19,012	**14,150**
Sales tax receivable	411	196
Income tax receivable	3,167	3,194
	22,590	**17,540**

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

7. OTHER LIABILITIES

	As at,	
	March 31, 2022	**December 31, 2021**
Legal provisions[(1)]	145	143
DSU liability	759	785
Warranty and other provisions[(2)]	1,455	1,451
Other liabilities	**2,359**	**2,379**

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

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

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

8. LONG-TERM DEBT

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

Revolving Credit Facility

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

Leasing Facilities

The Company has a C$5.0 million equipment leasing facility in Canada (the "Canada Leasing Facility") and a $14.0 million equipment leasing facility in the United States (the "U.S. Leasing Facility" and, together with the Canada Leasing Facility, the "Leasing Facilities") with RBC, and one of its affiliates, which are available for equipment expenditures and certain equipment expenditures already incurred. The Leasing Facilities, respectively, have seven and five-year terms and bear interest at 4.25% and 5.59%. The U.S. Leasing Facility is amortized over a six-year term and extendible at the Company's option for an additional year.

During the first quarter of 2022, the Company received $nil (twelve months ended December 31, 2021: $9.8 million) of cash consideration under the U.S. Leasing Facility. The associated financial liabilities are shown on the consolidated balance sheet in current other liabilities and long-term debt. Subsequent to March 31, 2022, the Company received C$0.9 million ($0.7 million) under the Canada Leasing Facility.

Convertible Debentures

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

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

9. STOCK-BASED COMPENSATION

In May 2020, shareholders approved the DIRTT Environmental Solutions Ltd. Long-Term Incentive Plan (the "2020 LTIP") at the annual and special meeting of shareholders. The 2020 LTIP gives the Company the ability to award options, share appreciation rights, restricted share units, restricted shares, dividend equivalent rights granted in connection with restricted share units, vested share awards, and other share-based awards and cash awards to eligible employees, officers, consultants and directors of the Company and its affiliates. In accordance with the 2020 LTIP, the sum of (i) 5,850,000 common shares plus (ii) the number of common shares subject to stock options previously granted under the Company's Amended and Restated Incentive Stock Option Plan (the "Stock Option Plan") that, following May 22, 2020, expire or are cancelled or terminated without having been exercised in full have been reserved for issuance under the 2020 LTIP. Upon vesting of certain LTIP awards, the Company may withhold and sell shares as a means of meeting DIRTT's tax withholding requirements in respect of the withholding tax remittances required in respect of award holders. To the extent the fair value of the withheld shares upon vesting exceeds the grant date fair value of the instrument, the excess amount is credited to retained earnings or deficit.

The Company also maintains the DIRTT Environmental Solutions Ltd. Deferred Share Unit Plan for Non-Employee Directors pursuant to which deferred share units ("DSUs") are granted to the Company's non-employee directors. DSUs are settled solely in cash.

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

Stock-based compensation expense

	For the Three Months Ended March 31,	
	2022	**2021**
Equity-settled awards	1,339	796
Cash-settled awards	(37)	298
	1,302	**1,094**

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

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

Restricted share units (time-based vesting)

Restricted share units that vest based on time have an aggregate time-based vesting period of three years and generally one-third of the RSUs vest every year over a three-year period from the date of grant ("RSUs"). At the end of a three-year term, the RSUs will be settled by way of the provision of cash or shares to employees (or a combination thereof), at the discretion of the Company. The weighted average fair value of the RSUs granted was C$2.40 (2021 – C$3.11) which was determined using the closing price of the Company's common shares on their respective grant dates.

Restricted share units (performance-based vesting)

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

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

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

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

Share awards

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

Deferred share units

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

Performance share units

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

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

Options

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

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

Range of exercise prices outstanding at March 31, 2022:

	Options outstanding			Options exercisable		
Range of exercise prices	**Number outstanding**	**Weighted average remaining life**	**Weighted average exercise price C$**	**Number exercisable**	**Weighted average remaining life**	**Weighted average exercise price C$**
C$4.01 – C$5.00	22,537	2.64	4.12	15,025	2.64	4.12
C$5.01 – C$6.00	-	-	-	-	-	-
C$6.01 – C$7.00	1,549,833	1.63	6.36	1,543,901	1.63	6.36
C$7.01 – C$8.00	751,204	2.13	7.84	510,250	2.13	7.84
Total	**2,323,574**			**2,069,176**		

Dilutive Instruments

For the three months ended March 31, 2022, 2.3 million options (2021 – 4.8 million), 5.6 million RSUs and PRSUs (2021 – 4.4 million) and 43.0 million shares which would be issued if the principal amount of the Debentures were settled in our common shares at the quarter end share price (2021 – 11.0 million) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive to the net loss per share.

10. REVENUE

In the following table, revenue is disaggregated by performance obligation and timing of revenue recognition. All revenue comes from contracts with customers. See Note 11 for the disaggregation of revenue by geographic region.

	For the Three Months Ended March 31,	
	2022	**2021**
Product	33,193	25,836
Transportation	4,061	2,499
License fees from Distribution Partners	197	207
Total product revenue	**37,451**	**28,542**
Installation and other services	835	923
	38,286	**29,465**

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

	For the Three Months Ended March 31,	
	2022	**2021**
At a point in time	37,254	28,335
Over time	1,032	1,130
	38,286	**29,465**

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

Contract Liabilities

	As at		
	March 31, 2022	**December 31, 2021**	**December 31, 2020**
Customer deposits	5,311	1,959	1,292
Deferred revenue	457	461	527
Contract liabilities	**5,768**	**2,420**	**1,819**

Contract liabilities primarily relate to deposits received from customers and deferred revenue from license subscriptions. The balance of contract liabilities was higher as at March 31, 2022 compared to December 31, 2021 mainly due to the timing of orders and payments. Contract liabilities as at December 31, 2021 and 2020, respectively, totaling $2.1 million and $1.5 million were recognized as revenue during the three months ended March 31, 2022 and 2021, respectively.

Sales by Industry

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

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

11. SEGMENT REPORTING

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

Revenue from external customers

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

Non-current assets, excluding deferred tax assets

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

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

12. INCOME TAXES

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

13. COMMITMENTS

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