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DIRTT Announces 2016 Q1 Results

CALGARY, AB – May 4, 2016 – DIRTT Environmental Solutions Ltd. (“DIRTT” or the “Company”) (TSX: DRT), a leading technology-enabled designer, manufacturer and installer of fully customized, prefabricated interiors, today announced its financial results for the three-month period ended March 31, 2016. This news release contains references to Canadian dollars and United States dollars. Canadian dollars are referred to as “\$” and United States dollars are referred to as “US\$”.

Selected Highlights

For the three months ended March 31, 2016 the Company reported:

- Significant non-energy revenue growth in the quarter of 27.3%;
- Trailing 12-month revenue was \$235.8 million versus \$203.5 million in the prior 12-month period, an increase of 15.9%;
- Adjusted gross profit (see “Non-IFRS Measures”) increased by \$0.3 million to \$24.8 million, or 1.2%, over Q1 2015;
- Adjusted gross profit % (see “Non-IFRS Measures”) increased by 120 basis points from 43.2% to 44.4% over Q1 2015;
- Continued and expanded investment in sales, marketing and business development contributing to Adjusted SG&A as a percentage of revenue (see “Non-IFRS Measures”) of 34.4%; and
- Adjusted EBITDA (see “Non-IFRS Measures”) for the quarter and trailing 12 months of \$4.6 million and \$27.7 million, respectively.

“In 2015 we could see challenges on the horizon for the energy industry and in response we proactively increased our sales efforts and investments across North America and all industry sectors,” said Mogens Smed, CEO of DIRTT. “As a direct result, we reported non-energy sector revenue growth of 27.3% over the first quarter of 2015.”

“While we remain focused on diversifying and building our core North American business we were also pleased to see an 83% increase in our international business to \$4.2 million in the quarter,” said Scott Jenkins, President. “We have increased our sales and marketing-related team by 14.4% from the prior year and will continue to make further strategic investments to drive growth.”

“Favorable project mix and relatively stable manufacturing volume helped us to generate improved gross profit over the prior year period, in conjunction with a more favorable average US-Canadian exchange rate in this year’s quarter,” said Derek Payne, CFO of DIRTT.

“Alongside better industry fundamentals, we saw stronger sales momentum as we exited the quarter and we expect stronger year-over-year results for the second quarter.”

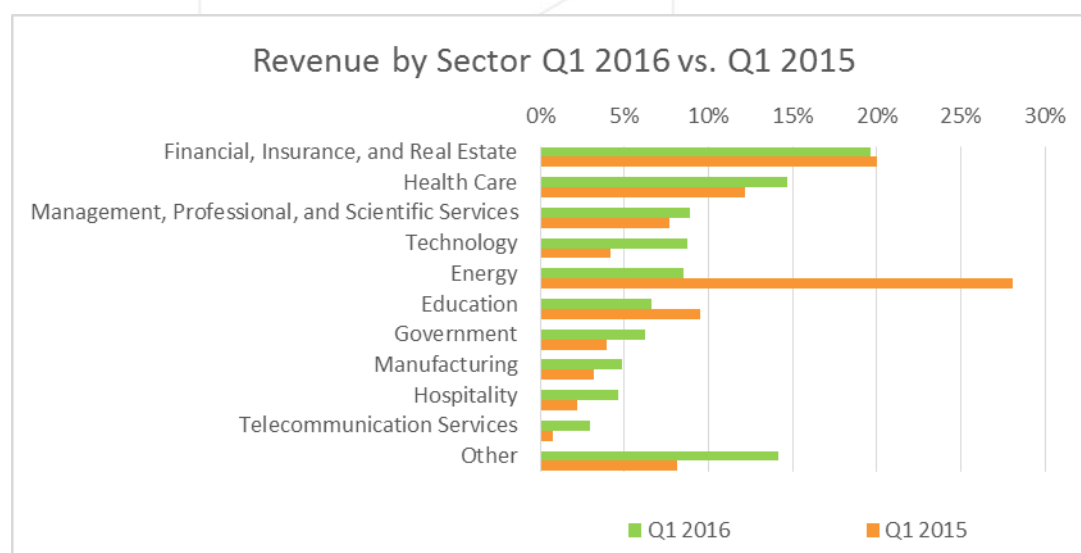
Summary Financial Results

	Q1 2016	Q1 2015
(\$ thousands, except per share amounts)		
Revenue	55,923	56,701
Gross profit	24,066	23,801
Gross profit %	43.0%	42.0%
Adjusted gross profit ⁽¹⁾	24,809	24,511
Adjusted gross profit % ⁽¹⁾	44.4%	43.2%
Selling, general and administrative ("SG&A")	23,146	20,071
SG&A as a % of revenue	41.4%	35.4%
Adjusted SG&A ⁽¹⁾	19,249	17,428
Adjusted SG&A as a % of revenue ⁽¹⁾	34.4%	30.7%
Operating income	920	3,730
Adjusted EBITDA ⁽¹⁾	4,578	8,689
Adjusted EBITDA as % of revenue ⁽¹⁾	8.2%	15.3%
Income tax (recovery) expense	(29)	222
Net income	368	4,682
Net income per share - basic and diluted	0.00	0.06
Cash flows provided by operating activities	1,268	4,261
Cash flows provided by operating activities ⁽¹⁾ before changes in non-cash working capital	2,682	8,304
	March 31,	
As at	2016	December 31, 2015
Cash and cash equivalents	83,523	91,405
Working capital	99,664	103,858
Long-term debt	7,526	9,161

Note: ⁽¹⁾ See "Non-IFRS Measures".

Revenue

Revenue decreased by \$0.8 million, or 1.4%, for Q1 2016 compared with Q1 2015. Q1 2015 revenue included \$8.1 million from the previously announced US\$30.0 million US energy sector contract compared to nil in Q1 2016. This business was partially offset by a general increase in activity from small and medium-sized projects in the current year period from a diverse range of industry segments. While total volume decreased quarter over quarter, the stronger US dollar versus the comparable period in 2015 increased the Canadian dollar value of US revenue, largely offsetting the decline in volume. Sales to the energy sector accounted for 9% of total revenue in Q1 2016, down from 28% of total revenue in Q1 2015. This decline was largely offset by increases in revenue from almost all other sectors. Below is a breakdown of the percentage of revenue by sector for Q1 2016 versus Q1 2015:



Adjusted Gross Profit

Adjusted gross profit for Q1 2016 improved slightly to \$24.8 million from \$24.5 million for Q1 2015, with adjusted gross profit % widening 120 basis points to 44.4% from 43.2%. Relatively steady manufacturing volumes throughout Q1 2016, combined with a diverse project mix, contributed to the increase in adjusted gross profit % in Q1 2016. The higher US dollar to Canadian dollar exchange rate also contributed to increased adjusted gross profit in Q1 2016, as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

Adjusted SG&A Expenses

Adjusted SG&A as a percentage of revenue increased by 370 basis points from 30.7% to 34.4% in Q1 2016 compared with Q1 2015. Adjusted SG&A expenses increased by \$1.8 million, or 10.4%, for Q1 2016 compared with Q1 2015. The increase reflects DIRTT's ongoing investment in long-term growth. The most significant changes can be attributed directly to marketing-related efforts including travel, people and promotional build-outs to showcase our capabilities.

The higher US dollar to Canadian dollar exchange rate also contributed to the overall increase in adjusted SG&A expenses across the organization for Q1 2016, as certain of these expenditures are denominated in US dollars.

Adjusted EBITDA

Adjusted EBITDA decreased by \$4.1 million, or 47.3%, for Q1 2016 compared with Q1 2015. Adjusted EBITDA as a percentage of revenue for Q1 2016 weakened by 710 basis points from 15.3% to 8.2% in Q1 2015. A large portion of the decrease was related to the increase in foreign exchange loss of \$2.6 million in Q1 2016 as a result of significant fluctuations in foreign exchange rates which impacted the translation of US dollar denominated balances and day-to-day transactions. The remainder of the decrease in Q1 2016 came from higher adjusted SG&A expenses of \$1.8 million, partially offset by the improvement in adjusted gross profit of \$0.3 million.

Outlook

Our growth strategy consists of five key initiatives: (1) increasing penetration of existing markets by providing continued support and increased investment to our existing DPs throughout North America; (2) expanding into new geographies, such as the Middle East and United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (3) penetrating new vertical markets such as the healthcare, education and residential sectors; (4) continuing to invest in ICE and new innovative interior construction solutions such as the Enzo Approach, residential interiors and timber frame construction; and (5) partnering with industry leaders to monetize innovative solutions.

With the recent launch of our residential and timber frame solutions, we have officially entered into these markets. We do not expect to see meaningful revenue from these markets in the near term; however, we were pleased to announce the award of our first significant residential contract for 16 duplexes in Alaska.

We believe DIRTT Solutions are a superior alternative to conventional construction in all sectors of the construction industry, and that a continued increase in construction activity can be expected to result in an ongoing improvement in our revenue. We plan to invest additional resources, including the further development of ICE and the development of new DIRTT Solutions and test projects, to pursue further opportunities in healthcare, education, government and residential sectors of the construction industry.

The American Institute of Architects' (AIA) Architecture Billings Index (ABI) can be a useful leading economic indicator of how US non-residential billing activity could trend. The most recent March billings and design activity numbers continued to show growth nationally, building on an improving trend in February following a slower start to the year. Regionally, the Northeast, South and West all saw billings grow with the Midwest remaining essentially flat. Both DIRTT and the AIA believe these overall numbers still point to solid fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

A major component of DIRTT's ongoing marketing activities is DIRTT Connex[™], our annual sales, marketing and training initiative which occurs every June in Chicago. It coincides with NeoCon[®], North America's largest commercial interiors exposition which typically attracts

50,000 design professionals. Each year DIRTT transforms its company-owned Chicago GLC to showcase its newest innovations and construction solutions to the architect and design community, clients, investors and the media. Distribution Partners and DIRTT sales representatives also take part in comprehensive training sessions, hear from DIRTT's leadership team and key third parties, and network with colleagues - all to strengthen their ability to succeed in their local markets.

The total cost for DIRTT Connex in 2015 was \$2.3 million. As the tangible benefits of this yearly event continue to become more evident, we expect to increase our investment in DIRTT Connex. This year's cost will be higher as we ramp up our investment in ongoing support and development of the broader team, more of our Distribution Partners and sales representatives participate, and the number of tours for our Distribution Partners' out-of-town clients continues to increase. Along with our investment, our Distribution Partners incur their own travel costs – in some cases bringing their entire teams to leverage the training and selling opportunity.

While these expenses are primarily incurred in Q2, DIRTT Connex's comprehensive sales and marketing initiatives significantly enhance regular marketing, training and communications efforts throughout the remainder of the year and beyond.

Liquidity and Capital Resources

At March 31, 2016, we had \$83.5 million in cash and cash equivalents compared with \$91.4 million at December 31, 2015. At March 31, 2016, we also had access to an undrawn US\$18.0 million revolving credit facility. In March 2016, we signed a fourth amendment to the amended and restated loan agreement with our lenders, which among other things, provided us with an additional capital financing facility of US\$10.0 million, which was undrawn as at March 31, 2016.

Non-IFRS Measures

Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A as a percentage of revenue, EBITDA, adjusted EBITDA, adjusted EBITDA as a percentage of revenue and cash provided by operating activities before changes in non-cash working capital are non-IFRS measures used by management to assess the Company's performance and financial condition. Consequently, they do not have a standard meaning as prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented and calculated by other companies. DIRTT believes the non-IFRS measures are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by DIRTT's business. The non-IFRS measures should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of its financial statements. For a reconciliation of these non-IFRS measures see the Company's management's discussion and analysis for the quarter ended March 31, 2016, available at <http://www.sedar.com>.

Conference Call Details

DIRTT will host a conference call and webcast on Thursday, May 5, 2016 at 9 a.m. ET, 7 a.m. MT to discuss its first quarter results in greater detail. President Scott Jenkins and CFO Derek Payne will host the call.



To access the conference call by telephone dial **+1 647.427.7450** (Toronto and international callers) or **1.888.231.8191** (toll-free in North America). Please call 10 minutes prior to the start of the call. In addition, a live webcast (listen only mode) of the conference call will be available at:

<http://event.on24.com/r.htm?e=1179032&s=1&k=58CCEF2A3EAB6933D946048EE5345265>

Investors are invited to submit questions by email before and during the conference call. Please send them to ir@dirtt.net.

A replay of the conference call will be available at **+1 416.849.0833 or 1.855.859.2056** by entering the passcode **97283457**, from noon (ET) Thursday, May 5, 2016 to midnight (ET) Thursday, May 12, 2016 or through the webcast archives at <http://www.newswire.ca> or on DIRTT's website at ir.dirtt.net/.

About DIRTT

DIRTT Environmental Solutions (Doing it Right This Time) uses its proprietary 3D software to design, manufacture and install fully customized prefabricated interiors. The Company's customers in the corporate, government, education and healthcare sectors benefit from DIRTT's precise design and costing; rapid lead times with the highest levels of customization and flexibility; and faster, cleaner construction.

DIRTT's manufacturing facilities are in Phoenix, Savannah, Kelowna and Calgary. DIRTT's team supports more than 100 Distribution Partners throughout North America, the Middle East and Asia. DIRTT trades on the Toronto Stock Exchange under the symbol "DRT." For more information visit www.dirtt.net.

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Forward-Looking Statements

Certain information and statements contained in this news release constitute "forward-looking information" and "forward-looking statements" (collectively, "Forward-Looking Information") as defined under applicable Canadian securities laws and the Company hereby cautions investors about important factors that could cause the Company's actual results or outcomes to differ materially from those projected in any Forward-Looking Information contained in this

news release. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will likely result”, “are expected to”, “will continue”, “is anticipated”, “believes”, “estimated”, “intends”, “plans”, “projection” and “outlook”), are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such Forward-Looking Information.

In particular and without limitation, this news release contains Forward-Looking Information pertaining to the following: comments with respect to the Company’s revenue, objectives and priorities for 2016 and beyond; project timetables; its growth strategies and opportunities; its ability to meet working capital requirements and financial obligations; use and deployment of the Company’s capital; and its outlook for its operations and the Canadian, US and international economies, and in particular, the US construction industry.

With respect to Forward-Looking Information contained in this news release, assumptions have been made regarding the Company, among other things:

- its ability to manage its growth;
- competition in its industry;
- its ability to enhance current products and develop and introduce new products;
- its ability to obtain components and products from suppliers on a timely basis and on favorable terms;
- its ability to obtain qualified staff and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes in Canada and the US and any other jurisdictions in which the Company may conduct its business in the future;
- future development plans for its assets unfolding as currently envisioned;
- future capital expenditures to be made by the Company;
- future sources of funding for its capital program;
- the impact of increasing competition on the Company; and
- its success in identifying risks to its business and managing the risks mentioned below.

The Company’s actual results or outcomes could differ materially from those expressed in the Forward-Looking Information as a result of the risks normally encountered in its industry such as:

- maintaining and managing growth;
- history of losses;
- risks related to new technology;
- competition risks;

- operating results and financial condition fluctuations on a quarterly and annual basis;
- risks related to intellectual property;
- risks related to additional capital requirements;
- customer base and market acceptance;
- software and product defects and design risks;
- availability of key supplies;
- dependence on key personnel;
- commodity price risk;
- credit risk;
- the effect of government regulation;
- risks related to international expansion;
- risks related to physical facilities;
- legal risks;
- foreign currency and fiscal matters;
- risks related to future acquisitions;
- risks related to Forward-Looking Information;
- reliance on third parties; and
- conflicts of interest.

Since actual results or outcomes could differ materially from those expressed in the Forward-Looking Information provided by or on behalf of the Company, investors and others should not place undue reliance on any such Forward-Looking Information.

DIRTT cautions that the foregoing lists of factors are not exhaustive. Further, Forward-Looking Information is made as of the date hereof, and the Company undertakes no obligation to update Forward-Looking Information to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable Canadian securities laws. New factors emerge from time to time, and it is not possible for DIRTT's management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in Forward-Looking Information. No assurance can be given that these expectations will prove to be correct and such Forward-Looking Information contained in this news release should not be unduly relied upon. In addition, this news release may contain Forward-Looking Information attributed to third party industry sources.

For a detailed description of the risks and uncertainties facing the Company and its business and affairs, readers should refer to the Company's annual financial statements, management's discussion and analysis and annual information form for the year ended December 31, 2015, all of which are available at <http://www.sedar.com>.

Market and Industry Data

Certain market and industry data contained in this news release is based upon information from government or other third party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third party publications and reports do not guarantee the accuracy or completeness of their information. While the Company believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data-gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. DIRTT has not independently verified any of the data from government or other third party sources referred to in this press release or ascertained the underlying assumptions relied upon by such sources.