MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the operating results and financial position of DIRTT Environmental Solutions Ltd. and its subsidiaries ("DIRTT", the "Company", "we", "us" or "our") was prepared as of June 30, 2016, and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2015 compared to the year ended December 31, 2014 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information, including the Company's annual information form for the year ended December 31, 2015 (the "AIF"), can be found on SEDAR at www.sedar.com.

The Company's reporting currency is the Canadian dollar. This MD&A contains references to Canadian dollars and United States dollars. Canadian dollars are referred to as "$" and United States dollars are referred to as "US$". All amounts are expressed in thousands of Canadian dollars unless otherwise stated.

EXPLANATORY NOTE

DIRTT is re-filing this MD&A in order to (i) present certain IFRS measures with equal or greater prominence than the most directly comparable non-IFRS measures used herein; and (ii) provide investors with additional information as to why such non-IFRS measures provide useful information to investors and how management uses these non-IFRS measures, in each case, in accordance with CSA Staff Notice 52-306, *Non-GAAP Financial Measures*. No changes have been made to the Financial Statements and this MD&A should be read in conjunction with such statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information and statements contained in this MD&A constitute "forward-looking information" and "forward-looking statements" (collectively, "Forward-Looking Information") as defined under applicable Canadian securities laws and the Company hereby cautions 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 MD&A. 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 MD&A contains Forward-Looking Information pertaining to the following: comments with respect to our revenue, objectives and priorities for 2016 and beyond; project timetables; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; use of proceeds from the 2015 bought deal offering discussed herein; and our outlook for our operations and the Canadian, United States (the "US") and international economies, and in particular, the US construction industry.

With respect to Forward-Looking Information contained in this MD&A, assumptions have been made regarding, among other things:

- our ability to manage our growth;
- competition in our industry;
- our ability to enhance current products and develop and introduce new products;
- our ability to obtain components and products from suppliers on a timely basis and on favorable terms;
- our 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 we may conduct our business in the future;
- future development plans for our assets unfolding as currently envisioned;
- future capital expenditures to be made by us;
- future sources of funding for our capital program;
- the impact of increasing competition on the Company; and
- our success in identifying risks to our business and managing the risks mentioned below.

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 MD&A should not be unduly relied upon. In addition, this MD&A may contain Forward-Looking Information attributed to third party industry sources.

MARKET AND INDUSTRY DATA

Certain market and industry data contained in this MD&A 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 Management 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.

OVERVIEW

We are a leading technology-driven manufacturer of highly customized interiors. We combine our proprietary ICE® 3D design, configuration and manufacturing software ("ICE" or "ICE Software") with integrated in-house manufacturing of our innovative prefabricated interior construction solutions and an extensive Distribution Partner ("DP") network. A DP is a third party who enters into a formal agreement to market and sell our suite of interior construction solutions. DPs are required to invest in their own regional DIRTT team consisting of at least one DIRTT champion (sales role), a designer and a project manager; in a Green Learning Center ("GLC") display area to showcase the potential of DIRTT Solutions (as defined below) to their clients; and to purchase an ICE Software package. As of the date hereof, we had 103 DPs in 183 locations. We are underpinned by a strong entrepreneurial culture and provide a unique, end-to-end solution for the inefficient and fragmented interior construction industry.

DIRTT STANDS FOR: DOING IT RIGHT THIS TIME.

Our goal is to build and deliver complete, engaging, well-designed, customized, sustainable, high-quality spaces faster and more efficiently than traditional construction methods, which often entail cost overruns, inconsistent quality, delays and significant material waste. Our proprietary ICE Software delivers an automated manufacturing process that significantly decreases the construction timeframe (three-week target or better) compared to the conventional approach. Using ICE, we focus on revolutionizing the interior construction industry by combining the speed, cost certainty, sustainability and modularity of prefabrication with the custom dimensions, functionality and aesthetics of skilled trade construction. ICE enables us to deliver a superior client experience, while combining the low unit costs of mass production processes with the flexibility of individual customization. This mass customization, combined with our highly entrepreneurial and client-focused culture, is the foundation for our business.

DIRTT Solutions, including DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings, DIRTT Floors and DIRTT Timber Frame form a comprehensive offering that allows us to address the challenges associated with traditional interior construction methods.

COMPARISON WITH CONVENTIONAL APPROACH

	DIRTT	Conventional Construction
Configuration Process	Automated	Manual
Quality	Errors virtually eliminated	Errors common
Cost	Generally lower	Typically higher
Delivery	Fast	Prone to delays
Flexibility	Completely customizable design	Difficult to accommodate changes
Efficiency	Minimal waste	Significant waste

Our revenues reflect sales to DPs for resale to their clients. We do not depend on any one DP, DP's client, industry or minimum job size. Our DPs' clients range from small owner-managed businesses to large multinational Fortune 500 corporations in a diverse range of vertical markets and industries including healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, and technology. As at December 31, 2015, our DPs had delivered DIRTT Solutions to more than 5,600 of their clients. For the year ended December 31, 2015, our average project size (on a per project order basis) was approximately $87,000 (2014 - $81,000), with the single largest project (on a per project order basis) being $2.0 million (2014 - $1.2 million). The largest individual project completed in our company history was valued at US$19.4 million, which was completed in early 2013. As at December 31, 2015, we have realized $14.0 million in revenue from project orders as part of the previously announced US$30.0 million gross contract with our DP Agile OFIS in Houston, Texas, signed in June 2014. This contract is currently on hold until further notice.

Historically, we have derived virtually all of our revenue from North America, with periodic international projects completed for North America-based DPs. Our two principal geographic locations are Canada and the US, as detailed below, and we have one operating segment.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
		($ thousands)		
Canada	14,560	10,291	44,919	42,631
US	50,428	47,654	191,706	144,698
	64,988	**57,945**	**236,625**	**187,329**

Revenue from international projects is included in the revenue amount for the US as these projects are sold by US-based DPs and delivered to international locations. For Q4 2015 and year ended December 31, 2015, revenue from international projects was $1.7 million, or 2.6% of total revenue, and $8.2 million, or 3.4% of total revenue, respectively (Q4 2014 and year ended December 31, 2014 – $2.2 million, or 3.8% and $8.5 million, or 4.5%, respectively).

BOUGHT DEAL OFFERING

In June 2015, we completed a bought deal offering issuing a total of 5,175,000 Common Shares (which included the exercise in full of the over-allotment option granted to the underwriters) at an offering price of $8.35 per Common Share for total gross proceeds of approximately $43.2 million ($40.6 million net). Total transaction costs incurred by DIRTT were $2.6 million, which consisted of underwriters' commission and fees, audit, legal, filing, French translation, and printing fees. The net proceeds are being used for (i) product development of new DIRTT Solutions for specific sectors, such as residential, healthcare, education and commercial, as well as capital expenditures to support initiatives for these sectors; (ii) ongoing development of DIRTT's proprietary ICE Software, including implementing and integrating all new product development solutions into ICE, regular ongoing software development initiatives and hiring additional ICE personnel to support these initiatives; (iii) new sales and business development initiatives, including adding new resources to support growth in current and new industry verticals as well as international markets; and (iv) working capital purposes and to satisfy any future bonding requirements with respect to major projects.

The following table compares the intended use of the net proceeds with the actual expenditures as at December 31, 2015, by which time the net proceeds from the bought deal offering were partially expended.

(in thousands)	Estimated per Prospectus	Actual spending up to December 31, 2015	Future estimated spending
Product development	$ 10,000	$ 4,414	$ 5,586
New sales and business development initiatives	3,000	3,680	-
ICE software development	8,000	2,750	5,250
	21,000	10,844	10,836
Working capital purposes - including short-term investments	19,600	29,756	(10,836)
Total (Estimated/Actual)	$ 40,600	$ 40,600	$ -

Although we intend to expend the remainder of the net proceeds set forth above based on the current knowledge and planning by DIRTT's management, there may be circumstances where for sound business reasons, a reallocation of funds may be deemed prudent or necessary, and may vary materially from that set forth above.

ANNUAL SALES, MARKETING & TRAINING INITIATIVE – DIRTT CONNEXT™

DIRTT's largest sales, marketing and training initiative (called DIRTT Connext™) occurs in Chicago every June, coinciding with NeoCon®, North America's largest commercial interiors exposition which typically attracts 50,000 design professionals. DIRTT hosts its own series of events before, during and after the three-day NeoCon event. Each year DIRTT transforms its company-owned GLC in Chicago to showcase its newest innovations and construction solutions to the architect and design community, DPs, and potential and existing clientele. DIRTT's new residential interiors and timber frame construction were featured in 2015 and received accolades from the thousands of people who visited the GLC. The Company also conducted comprehensive training sessions for DPs and sales representatives during DIRTT Connext, in addition to tours for trade media and investors. DIRTT's success relies heavily on the success of its DPs. Extensive training sessions are an important aspect of DIRTT Connext, and provide invaluable information to our DPs as well as to the DIRTT teams that support them. Hearing from and sharing ideas with the most successful DPs, presentations from key third parties and time spent with DIRTT resources strengthens their ability to succeed in their local markets.

PATENT INFRINGEMENT CLAIMS

In August 2015, the Company filed claims for patent infringement against Allsteel Inc., claiming that Allsteel Inc.'s Beyond® products infringe on DIRTT's patent rights, specifically US Patent Number 8,024,901, which is related to our reconfigurable wall system. As of the date hereof, there has been no significant development with respect to these claims.

KEY METRICS

Key metrics that we use include revenue; revenue growth; gross profit; gross profit as a percentage of revenue ("gross profit %"); adjusted gross profit; adjusted gross profit as a percentage of revenue ("adjusted gross profit %"); selling, general and administrative expenses ("SG&A"); SG&A as a percentage of revenue ("SG&A %"); adjusted SG&A; adjusted SG&A as a percentage of revenue ("adjusted SG&A %"); adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA"); and adjusted EBITDA as a percentage of revenue ("adjusted EBITDA %). Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A %, adjusted EBITDA and adjusted EBITDA % are non-IFRS measures. Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A %, Adjusted EBITDA and Adjusted EBITDA % are non-IFRS measures. Non-IFRS measures 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. The non-IFRS measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements. See "Non-IFRS Measures" for a reconciliation of these non-IFRS measures.

We do not have a backlog of booked but not yet completed projects, which is common in traditional construction, as DIRTT Solutions are ordered and delivered generally in less than one month. The rapid production and delivery times enabled by ICE are a key competitive advantage and result in this very limited contractual backlog.

Revenue

We have two main revenue streams: sale of DIRTT Solutions, which makes up the majority of our revenue; and sale of ICE Software licenses and related service revenue through Ice Edge Business Solutions Ltd. ("Ice Edge"), a wholly owned subsidiary of DIRTT, to third parties in industries where DIRTT does not compete.

We monitor revenue growth as a key metric in the evaluation of the business. We continue to pursue our growth strategy through five key initiatives: (i) increasing penetration of existing markets by providing continued support and increased investment to our existing DPs throughout North America; (ii) expanding into new geographies, such as the Middle East and United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (iii) penetrating new vertical markets such as the residential sector; (iv) investing in ICE and new innovative interior construction solutions such as the Enzo Approach, residential interiors and timber frame construction; and (v) partnering with industry leaders to monetize innovative solutions – a recent example of which is the Corning® Willow® Glass initiative signed in February 2015. Revenue growth is an indicator of the effectiveness of these investments.

Revenue can fluctuate from quarter to quarter or year to year as a result of changes in the levels of sales of DIRTT Solutions and ICE Software licenses to new and existing customers; changes in the timing of construction projects; changes in customer preferences or needs; changes in our pricing policies or those of our competitors; general economic and industry conditions that affect customer demand and product development trends; and the global economic volatility.

The majority of our revenue is collected in US dollars, whereas our reporting currency is Canadian dollars. As a result, we are exposed to fluctuations in the US dollar against the Canadian dollar which could have a positive or negative impact on our revenue. The recent strengthening of the US dollar versus the Canadian dollar has had a positive impact on our overall revenue.

Gross Profit / Gross Profit % / Adjusted Gross Profit / Adjusted Gross Profit %

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the cost of material and components, manufacturing salaries, wages, benefits and overhead costs, depreciation of equipment and tooling for manufacturing-related assets, warranty costs, and product transportation costs. Warranty costs result from a general 10-year warranty policy providing coverage against manufacturing and installation defects on all products. We use gross profit as a key metric in evaluating the business and in particular the overall production and operating effectiveness and efficiency of our manufacturing plants.

Adjusted gross profit is calculated as gross profit before the deduction of the depreciation of equipment and tooling for manufacturing-related assets that is included in cost of goods sold.

Adjusted gross profit % is calculated as adjusted gross profit divided by revenue. See "Non-IFRS Measures" for a reconciliation of adjusted gross profit and adjusted gross profit %.

Gross profit, gross profit %, adjusted gross profit, and adjusted gross profit % can fluctuate from quarter to quarter or year to year as they are impacted by production efficiencies, project-specific price adjustments, material and labor costs, product transportation costs and foreign exchange rates. We expect these metrics to generally improve in correlation with higher revenue levels. However, limitations or delays in our ability to reduce our expenses during periods of declining revenue can have an adverse effect on overall gross profit and gross profit %.

The largest component of cost of goods sold – approximately 50% – comes from materials. Price risks relating to materials and components are mitigated as production turnaround times are short and inventory levels are low due to the custom nature of the products that we produce. Larger projects or those with a longer turnaround time between quote and production could be impacted by fluctuations in the costs of material and components, and could have an impact on the overall cost of goods sold. Labor represents approximately one-third of the cost of goods sold, of which approximately 50% is variable and 50% is not affected by volume.

On some of our US dollar-denominated projects, certain of the manufacturing costs are incurred in our Canadian facilities. As a result, we are exposed to fluctuations in the US dollar against the Canadian dollar which could have a positive or negative impact on our cost of goods sold. The strengthening of the US dollar has a positive impact on our overall gross profit as the positive impact on revenue is greater than the negative impact on US dollar-denominated production costs.

SG&A / SG&A % / Adjusted SG&A / Adjusted SG&A %

SG&A expenses include wages, salaries and benefits, sales commissions, marketing costs, professional services, facility rent and utilities, stock-based compensation, office expenses, and depreciation and amortization of non-manufacturing- related assets. Marketing costs include promotional costs for launching and operating GLCs, client tours, and trade shows. We have invested, and expect to continue to invest, in these costs as we further expand our North American infrastructure and presence in international markets.

Adjusted SG&A is calculated as SG&A before the inclusion of depreciation and amortization of non-manufacturing-related assets, non-cash stock-based compensation expense and non-cash one-time commission adjustment. Adjusted SG&A % is calculated as adjusted SG&A divided by revenue. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and Adjusted SG&A %.

The strengthening of the US dollar has had a negative impact on overall SG&A costs as some of these costs are incurred in US dollars.

Adjusted EBITDA / Adjusted EBITDA %

Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization ("EBITDA") plus non-cash foreign exchange gains or losses on debt revaluation; gains or losses on disposal of property, plant and equipment and intangible assets; write-off of property, plant and equipment and intangible assets; non-cash stock-based compensation expense; transaction costs; non-cash one-time commission adjustment and any other non-recurring gains or losses. Adjusted EBITDA % is calculated as Adjusted EBITDA divided by revenue. See "Non-IFRS Measures" for a reconciliation of Adjusted EBITDA and Adjusted EBITDA%.

FOURTH QUARTER 2015 HIGHLIGHTS

- Revenue increased by $7.0 million to $65.0 million, or 12.2%, over Q4 2014;
- Gross profit increased by $3.4 million to $28.4 million, or 13.5% over Q4 2014;
- SG&A % increased by 0.5% from 31.9% to 32.4% over Q4 2014;
- Adjusted EBITDA % (see "Non-IFRS Measures") decreased by 2.2% from 16.9% to 14.7% versus Q4 2014; and
- Previously unrecognized deferred tax assets of $5.3 million were recognized, of which $4.0 million was recorded in the statement of income and comprehensive income and $1.3 million was recorded in equity.

FULL YEAR 2015 HIGHLIGHTS

In addition to the highlights reported in the fourth quarter of 2015, during the year ended December 31, 2015:

- Revenue increased by $49.3 million to $236.6 million, or 26.3%, over 2014;
- Gross profit % improved by 1.2% from 41.7% to 42.9% over 2014;
- Adjusted gross profit % (see "Non-IFRS Measures") improved by 1.3% from 42.9% to 44.2% over 2014;
- SG&A% decreased by 1.5% from 37.5% to 36.0%;
- Adjusted EBITDA (see "Non-IFRS Measures") increased by $14.8 million from $19.9 million to $34.7 million over 2014;
- Adjusted EBITDA % (see "Non-IFRS Measures") increased by 4.1% from 10.6% to 14.7% over 2014;
- EPS increased by $0.14 from $0.08 to $0.22 over 2014;
- Net cash flows provided by operating activities before changes in non-cash working capital (see "Non-IFRS Measures") were $37.2 million, an increase of $17.2 million over 2014;

- DIRTT entered into an exclusive strategic collaboration with Corning Incorporated to bring Corning® Willow® Glass to DIRTT's suite of interior construction solutions;
- DIRTT completed a bought deal offering issuing 5,175,000 common shares of DIRTT ("Common Shares") at $8.35 per Common Share for gross proceeds of approximately $43.2 million ($40.6 million net);
- DIRTT launched our new residential interior and timber frame construction offerings at DIRTT's annual sales, marketing and training initiative in Chicago (called DIRTT Connext); and
- DIRTT filed claims for patent infringement against Allsteel Inc.

SELECTED ANNUAL INFORMATION

The selected information presented below has been derived from and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2015, 2014 and 2013.

	Year ended December 31,		
	2015	**2014**	**2013**
	($ thousands, except share and per share amounts)		
Operations			
Revenue	236,625	187,329	139,795
Operating income (loss)	16,226	7,300	(4,267)
Other income (expenses)	1,957	(709)	(10,932)
Net income (loss)	17,892	5,954	(16,495)
Net income (loss) per share			
Basic and diluted	0.22	0.08	(0.42)
Weighted average number of shares outstanding			
Basic	81,170,086	72,151,809	39,230,344
Diluted	83,010,711	74,042,768	39,230,344
As at December 31,	**2015**	**2014**	**2013**
	($ thousands)		
Financial position			
Property, plant and equipment	48,236	35,661	29,986
Intangible assets	15,225	11,523	10,112
Total assets	212,250	137,428	108,891
Current portion of long-term debt	3,663	3,516	2,419
Non-current financial liabilities			
Long-term debt	5,498	6,336	5,673
Convertible notes	-	-	9,904
Total shareholders' equity	170,839	95,797	68,600

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three months and years ended December 31, 2015 and 2014.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
	($ thousands, except per share amounts)			
Revenue	64,988	57,945	236,625	187,329
Gross profit	28,443	25,050	101,456	78,043
Gross profit %	43.8%	43.2%	42.9%	41.7%
Adjusted gross profit (1)	29,330	25,716	104,496	80,279
Adjusted gross profit % (1)	45.1%	44.4%	44.2%	42.9%
SG&A	21,073	18,470	85,230	70,235
SG&A %	32.4%	31.9%	36.0%	37.5%
Adjusted SG&A (1)	20,135	16,495	72,613	61,187
Adjusted SG&A % (1)	31.0%	28.5%	30.7%	32.7%
Operating income	7,370	6,580	16,226	7,300
Adjusted EBITDA (1)	9,573	9,793	34,709	19,916
Adjusted EBITDA % (1)	14.7%	16.9%	14.7%	10.6%
Income tax (recovery) expense	(1,501)	504	291	637
Net income	9,127	6,553	17,892	5,954
Net income per share - basic and diluted	0.11	0.09	0.22	0.08

Note:

(1) See "Non-IFRS Measures".

Revenue

Revenue increased by $7.0 million, or 12.2%, for Q4 2015 compared with Q4 2014. Q4 2014 revenue included $5.0 million from the previously announced US$30.0 million US energy sector contract compared to $0.1 million in Q4 2015. During Q4 2015, the Company received notification that the contract is on hold until further notice. This business was offset by a general increase in activity from small and medium sized projects. While total sales volume increased modestly quarter over quarter, the strengthening US dollar increased the Canadian dollar value of US revenue. Sales to the energy sector accounted for 7% of total revenue in Q4 2015, down from 24% of total revenue in Q4 2014. The reduction reflects the absence of contribution from the previously announced US$30.0 million contract and a general decline in activity in this sector as a result of falling energy prices. This decline was more than offset by increases in revenue from the financial, insurance and real estate and management, professional and scientific services sectors.

Revenue increased by $49.3 million, or 26.3%, for the year ended December 31, 2015 compared with the same period in 2014. The increase was due to contribution of $8.6 million from the previously announced US$30.0 million contract (2014 - $5.4 million), continued momentum throughout North American markets, and the strengthening US dollar. During the year ended December 31, 2015, the energy sector accounted for 10% of total revenue, down from 20% of total revenue in 2014. This decline was more than offset by increases in revenue from the financial, insurance and real estate; technology and retail trade sectors. These results demonstrate the overall strength in the North American construction market, and the diversity of DIRTT's network, reach and unique offerings.

Gross Profit / Adjusted Gross Profit/ Gross Profit % / Adjusted Gross Profit %

Gross profit % increased slightly from 43.2% to 43.8% for Q4 2015 compared with Q4 2014. Adjusted gross profit % increased slightly from 44.4% to 45.1% for Q4 2015 compared with Q4 2014.

Gross profit for the year ended December 31, 2015 improved to $101.5 million from $78.0 million for the year ended December 31, 2014 with gross profit % widening 1.2% to 42.9% from 41.7%. The increase was due primarily to significantly higher revenue and favorable product mix resulting in reduced material and direct labor costs in 2015 compared with 2014. Higher overall production volumes in 2015 allowed DIRTT to more effectively leverage the fixed component of cost of goods sold, which also contributed to the higher adjusted gross profit percentage. During the year ended December 31, 2015, material costs and direct labor costs as a percentage of revenue improved by 0.4% and 1.0%, respectively, compared with 2014, partially due to product mix and leverage from higher revenue levels. Higher production volumes enable better absorption of fixed costs included in cost of goods sold, such as facilities costs and indirect labor costs. During the year ended December 31, 2015, indirect labor and product costs, which are mostly fixed costs, improved by 0.2% as a percentage of revenue compared with 2014.

Adjusted gross profit for the year ended December 31, 2015 improved to $104.5 million from $80.3 million for the year ended December 31, 2014 with adjusted gross profit % widening 1.3% to 44.2% from 42.9% for the same reasons discussed above with respect to gross profit. See "Non-IFRS Measures" for a reconciliation of adjusted gross profit and adjusted gross profit %.

The stronger US dollar also contributed to higher gross profit and adjusted gross profit in the three months and year ended December 31, 2015, as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

SG&A Expenses / Adjusted SG&A Expenses / SG&A % / Adjusted SG&A %

SG&A % increased by 0.5% from 31.9% to 32.4% in Q4 2015 compared with Q4 2014. SG&A expenses increased by $2.6 million, or 14.1%, for Q4 2015 compared with Q4 2014. The increase reflects DIRTT's ongoing investment in long-term growth. The most significant changes can be attributed directly to sales-related efforts as salaries and benefits increased by $2.0 million. These costs reflect adding personnel focused on generating and supporting higher business volumes. Other increases in SG&A in Q4 2015 included depreciation and amortization expense of non-manufacturing-related assets of $1.4 million, non-cash marketing promotional items of $0.9 million, stock-based compensation expense of $0.5 million, travel and marketing costs of $0.4 million, rent expense of $0.2 million, and $0.4 million in other operating expense items. Non-cash marketing activities are used to showcase DIRTT's latest innovations and provide our partners with real-life examples of how best to position DIRTT's value proposition. These increases are partially offset by a decrease in commission expense of $3.2 million in Q4 2015 as a result of the $2.9 million commission adjustment made during Q4 2015. See "Non-Cash One-Time Commission Adjustment Details" below for more details.

Adjusted SG&A %increased by 2.5% from 28.5% to 31.0% in Q4 2015 compared with Q4 2014. Adjusted SG&A expenses increased by $3.6 million, or 22.1%, for Q4 2015 compared with Q4 2014. The reason for the increase is the same as discussed above with respect to SG&A, excluding the impact from the non-cash depreciation and amortization of non-manufacturing-related assets, stock-based compensation expense and non-cash one-time commission adjustment. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and Adjusted SG&A %.

SG&A % decreased by 1.5% from 37.5% to 36.0% in the year ended December 31, 2015 compared with the same period in 2014. SG&A expenses increased by $15.0 million, or 21.3%, for the year ended December 31, 2015 compared with the same period in 2014. The change was due to increases in salaries and benefits of $4.9 million, travel and marketing costs of $3.0 million, depreciation and amortization expense of non-manufacturing-related assets of $1.9 million, stock-based compensation expense of $1.7 million, non-cash marketing promotional items of $1.2 million, rent expense of $0.6 million, professional services of $0.3 million, repairs and maintenance costs of $0.2 million, and $1.2 million in other operating expense items. The increase in salaries and benefits are for the same reasons discussed above. The increase in travel and marketing costs in 2015 was due largely to DIRTT Connext, the previously discussed annual sales, marketing and training initiative held in Chicago in June. The total cost for DIRTT Connext in 2015 was $2.3 million, compared with $1.3 million in the prior year. The increased cost was due to greater DP and team attendance at the internally focused, senior management-led training sessions, as well as a significantly higher volume of tours through the completely redesigned GLC, where DIRTT's new residential and timber frame solutions were rolled out. The Company also conducted a series of media and investor relations activities as part of the week-long event. This annual event occurs in Q2, but includes comprehensive initiatives that significantly enhance regular marketing, training and communications efforts and benefit DIRTT throughout the remainder of the year and beyond. The increase in depreciation and amortization expense of non-manufacturing-related assets correlates with the increase in our investment in leasehold improvements and software and product development. The increase in stock-based compensation expense was due to the granting of options in August 2015 that carried a higher black-scholes value than the June 2014 grant.

Adjusted SG&A % decreased by 2.0% from 32.7% to 30.7% in the year ended December 31, 2015 compared with the same period in 2014. Adjusted SG&A expenses increased by $11.4 million, or 18.7%, for the year ended December 31, 2015 compared with 2014. The reason for the increase is the same as discussed above with respect to SG&A, excluding the impact from the non-cash depreciation and amortization of non-manufacturing-related assets and stock-based compensation expense. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and Adjusted SG&A %.

The stronger US dollar contributed to the overall increase in SG&A and adjusted SG&A expenses across the organization for the three months and year ended December 31, 2015, as certain of these expenditures are denominated in US dollars.

Adjusted EBITDA / Adjusted EBITDA %

Adjusted EBITDA decreased by $0.2 million, or 2.2%, for Q4 2015 compared with Q4 2014. Adjusted EBITDA % for Q4 2015 weakened by 2.2% from 16.9% to 14.7% over Q4 2014. The decrease was mainly due to higher adjusted SG&A expenses of $3.6 million for the reasons discussed above. This amount was partially offset by the $7.0 million increase in revenue and the resulting improvement in adjusted gross profit of $3.6 million. See "Non-IFRS Measures" for a reconciliation of Adjusted EBITDA and Adjusted EBITDA%.

Adjusted EBITDA grew by $14.8 million, or 74.3%, for the year ended December 31, 2015 compared with 2014. Adjusted EBITDA % for the year ended December 31, 2015 improved by 4.1% from 10.6% to 14.7% over the same period in 2014. The change was mainly due to the $49.3 million improvement in revenue and the resulting increase in adjusted gross profit of $24.2 million. These amounts were partially offset by higher adjusted SG&A expenses of $11.4 million for the reasons discussed above. See "Non-IFRS Measures" for a reconciliation of Adjusted EBITDA and Adjusted EBITDA%.

Income Tax Expense

For Q4 2015 and year ended December 31, 2015, DIRTT recorded an income tax recovery of $1.5 million and an expense of $0.3 million, respectively, compared to expenses of $0.5 million and $0.6 million, respectively, for the same periods in 2014. The recovery during Q4 2015 was partially due to the recognition of previously unrecognized deferred tax assets of $5.3 million, of which $4.0 million was recognized in the statement of income and comprehensive income and $1.3 million was recognized directly in equity, as it was assessed as probable that future taxable profits will be generated. The recognition was based on DIRTT's taxable income generated in the current year as well as on anticipated future taxable income. The recovery was partially offset by the income tax provision of our US subsidiary.

As at December 31, 2015, the Company has consolidated loss carry forwards of $15.9 million and US$4.1 million (2014 - $20.6 million and US$4.6 million) for the Canadian and US operating segments, respectively. These losses will expire in the years 2030 to 2033.

Summary of Quarterly Results

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
	($ thousands, except per share amounts)							
Revenue	64,988	62,070	52,866	56,701	57,945	46,651	42,218	40,515
Gross profit $	28,443	27,799	21,413	23,801	25,050	19,145	16,758	17,090
Gross profit %	43.8%	44.8%	40.5%	42.0%	43.2%	41.0%	39.7%	42.2%
Adjusted gross profit % (1)	45.1%	45.8%	42.0%	43.2%	44.4%	42.3%	40.7%	43.5%
Operating income (loss)	7,370	6,257	(1,131)	3,730	6,580	1,301	(1,579)	998
Adjusted EBITDA (1) (2)	9,573	11,198	2,324	8,689	9,793	5,259	1,149	3,715
Adjusted EBITDA % (1)	14.7%	18.0%	4.4%	15.3%	16.9%	11.3%	2.7%	9.2%
Net income (loss)	9,127	5,446	(1,363)	4,682	6,553	1,526	(2,055)	(70)
Net income (loss) per share - basic and diluted	0.11	0.07	(0.02)	0.06	0.09	0.02	(0.03)	(0.00)

Note:

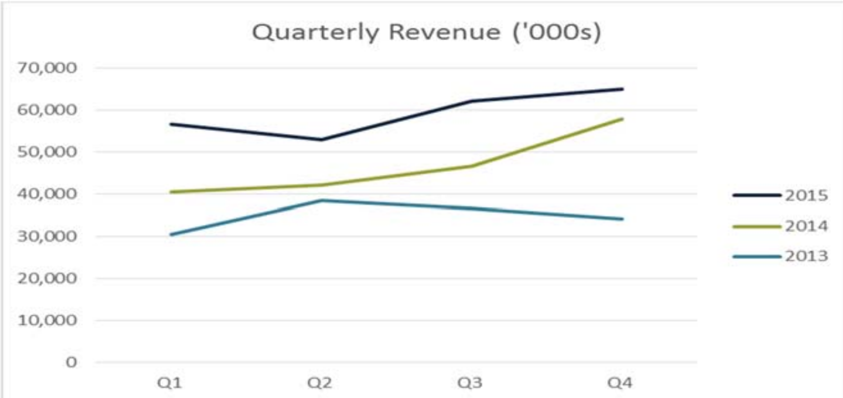
(1) See "Non-IFRS Measures".

(2) The sum of Adjusted EBITDA for the four quarters of 2015 will not sum to $34,709 due to the non-cash one-time commission adjustment of $2,925 in Q4 2015. See "Non-IFRS Measures".

Non-Cash One-Time Commission Adjustment Details

During Q4 2015, DIRTT recognized $2.9 million in a non-cash one-time adjustment related to its over-accrual of commission expense owing to its sales and business development personnel. The adjustment made in Q4 2015 was to reflect the actual amount of commission earned during the year. See "Internal Controls Over Financial Reporting".

Trends



DIRTT's business historically demonstrates some seasonality. The first quarter and fourth quarter have historically shown a small slowdown related to winter weather conditions and holiday schedules. However, this trend was not as prevalent in 2014 and 2015 as it has been in years past.

Due to the fixed nature of some of DIRTT's manufacturing costs, periods of higher revenue volume tend to generate higher gross profit and operating income. Additionally, quarters that contain consistent monthly manufacturing volumes tend to generate higher gross profit than those where manufacturing levels vary significantly from month to month.

Changes in Financial Position

The following is a discussion of changes in the consolidated statement of financial position as at December 31, 2015.

As at December 31,	2015	2014	Change ($)	Change (%)	Explanation of changes
	($ thousands)				
Current assets					
Cash and cash equivalents	91,405	39,836	51,569	129%	See "Liquidity and Capital Resources"
Trade and other receivables	23,574	28,425	(4,851)	(17%)	Reflects improvement in collection of receivables
Inventory	21,619	15,097	6,522	43%	Reflects increase in raw material purchases and work in progress as at December 31, 2015
Prepaids and other current assets	1,614	1,853	(239)	(13%)	Insignificant change
	138,212	85,211			
Current liabilities					
Trade accounts payable and other liabilities	23,597	23,990	(393)	(2%)	Reflects timing of payment of payables and other liabilities
Customer deposits	7,094	7,271	(177)	(2%)	Insignificant change
Current portion of long-term debt	3,663	3,516	147	4%	Insignificant change
	34,354	34,777			
Working capital					
(Current assets minus Current liabilities)	103,858	50,434	53,424	106%	

As at December 31,	2015	2014	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Non-current assets					
Property, plant and equipment	48,236	35,661	12,575	35%	Reflects additions of $18.3 million (mostly manufacturing equipment and leasehold improvements, rebuild of Chicago GLC) and foreign exchange adjustment of $3.1 million, partially offset by depreciation expense of $8.7 million and a loss on disposal of $0.1 million
Intangible assets	15,225	11,523	3,702	32%	Reflects additions of $7.5 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $3.8 million
Note receivable	443	465	(22)	(5%)	Reflects scheduled repayments during 2015
Deferred tax assets	7,279	2,099	5,180	247%	Reflects recognition of previously unrecognized deferred tax assets of $5.3 million from our Canadian subsidiary
Goodwill	1,845	1,845	-	0%	No change
Other assets	1,010	624	386	62%	Reflects issuance of convertible note receivable of $0.2 million and additional rent deposits on new leases
Non-current liabilities					
Deferred tax liabilities	1,559	518	1,041	201%	General movement in temporary differences
Long-term debt	5,498	6,336	(838)	(13%)	Reflects an additional $2.1 million drawn on the capital financing facility in March 2015 and the impact of the strengthening of the US dollar on our US dollar denominated debt, offset by repayments of $4.2 million during 2015
Shareholders' equity					
Common share capital	193,984	143,386	50,598	35%	Reflects completion of bought deal financing in June 2015 ($40.6 million), stock options ($5.7 million) and warrants ($3.0 million) exercised during 2015, and recognition of deferred tax assets ($1.3 million)
Warrants	37	526	(489)	(93%)	Reflects warrants exercised during 2015
Contributed surplus	6,865	5,440	1,425	26%	Primarily due to stock-based compensation expense, partially offset by stock option exercises during 2015
Accumulated other comprehensive income	9,277	3,661	5,616	153%	Reflects the strengthening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(39,324)	(57,216)	17,892	(31%)	Net income from 2015

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Consolidated statements of cash flows

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Cash flows provided by operating activities [1] before changes in non-cash working capital	12,998	9,858	37,212	20,037
Changes in non-cash working capital	(5,517)	3,505	(4,519)	(6,248)
Net cash flows provided by operating activities	7,481	13,363	32,693	13,789
Add (deduct):				
Net cash flows used in investing activities	(8,202)	(4,914)	(25,746)	(15,549)
Net cash flows (used in) provided by financing activities	(190)	6,388	44,622	7,223
(Decrease) increase in cash and cash equivalents	(911)	14,837	51,569	5,463
Cash and cash equivalents, beginning of period	92,316	24,999	39,836	34,373
Cash and cash equivalents, end of period	**91,405**	**39,836**	**91,405**	**39,836**

Note:

(1) See "Non-IFRS Measures".

At December 31, 2015, we had $91.4 million in cash and cash equivalents compared with $39.8 million at December 31, 2014. At December 31, 2015, we also had access to an undrawn US$18.0 million revolving credit facility.

Looking forward to 2016, we expect to make continued investments in product and software development to further expand our solution offerings, as well as in certain manufacturing equipment to support this development. We also expect to further invest in our existing GLCs to ensure that each location is showcasing the latest DIRTT Solutions. We expect to complete the construction of our new GLC in London, England, to better serve and support the significant market in the Middle East and Europe.

We believe our current cash on hand, available credit facilities and cash flow from operations provide sufficient liquidity to meet our working capital requirements, which are mainly our accounts receivable, inventory, and accounts payable and other liabilities balances that arise in the normal course of our operations, our financial obligations, and the flexibility to pursue additional growth opportunities. In addition, we usually require a 50% deposit on certain orders which further reduces pressure on our working capital. We do not require deposits on US government orders or in some special contractual situations. Historically, we do not see a strong correlation between the customer deposits balance at the end of the period and the following period's revenue.

Net cash flows provided by operating activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net income for the period	9,127	6,553	17,892	5,954
Adjustments:				
Depreciation included in cost of goods sold	887	666	3,040	2,236
Depreciation and amortization included in SG&A	2,706	1,347	9,508	7,650
Stock-based compensation	1,157	628	3,109	1,398
Loss on derecognition of liability	-	-	-	307
Loss (gain) on sale of property, plant and equipment	22	3	106	(17)
Finance cost	86	77	395	1,359
Income tax (recovery) provision	(1,501)	504	291	637
Recognition of deferred tax assets directly in equity	1,262	-	1,262	-
Non-cash foreign exchange loss	(594)	630	2,294	1,297
Net change in non-cash working capital	(5,517)	3,505	(4,519)	(6,248)
Cash taxes paid	(154)	(550)	(685)	(784)
Net cash flows from operating activities	**7,481**	**13,363**	**32,693**	**13,789**

Net cash flows provided by operating activities decreased by $5.9 million for Q4 2015 compared with Q4 2014. The decrease was mainly due to lower adjusted EBITDA of $0.2 million and an increased investment in non-cash working capital items of $9.0 million during Q4 2015, partially offset by the recognition of deferred tax assets directly into equity of $1.3 million and the non-cash one-time commission adjustment of $2.9 million.

Net cash flows provided by operating activities increased by $18.9 million for the year ended December 31, 2015 compared with the same period in 2014. The growth was mainly due to an increase in adjusted EBITDA of $14.8 million as a result of higher revenue and improved adjusted gross profit percentage and an improvement in changes in non-cash working capital items of $1.7 million for the year ended December 31, 2015.

Net cash flows used in investing activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Purchase of property, plant and equipment	(6,821)	(4,186)	(18,321)	(10,812)
Capital expenditures on internally generated intangible assets	(1,407)	(727)	(7,512)	(4,798)
Other	26	(1)	87	61
Net cash flows used in investing activities	**(8,202)**	**(4,914)**	**(25,746)**	**(15,549)**

Net cash flows used in investing activities for Q4 2015 increased by $3.3 million compared with Q4 2014. Net cash flows used in investing activities for the year ended December 31, 2015 increased by $10.2 million compared with the same period in 2014. The majority of the increases relate to investment in new manufacturing equipment necessary to expand our manufacturing capabilities, and our company-owned GLCs, specifically our Chicago GLC for DIRTT Connext. We also continue to invest in product and software development and our ongoing commitment to further enhance and expand our solutions such as the new residential interiors, timber frame construction, Enzo Approach and Corning® Willow® Glass offerings.

Net cash flows (used in) provided by financing activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Issuance of share capital on bought deal offering	-	-	43,211	-
Share capital issuance costs	-	-	(2,598)	-
Issuance of share capital on exercise of stock options	1,307	3,050	4,008	5,725
Issuance of share capital on exercise of warrants	-	249	2,542	863
Interest paid on convertible notes	-	-	-	(413)
Proceeds of long-term debt	-	3,785	2,079	3,785
Repayment of long-term debt	(1,411)	(619)	(4,225)	(2,448)
Interest paid on long-term debt	(86)	(77)	(395)	(289)
Net cash flows (used in) from financing activities	**(190)**	**6,388**	**44,622**	**7,223**

Net cash flows provided by financing activities for Q4 2015 decreased by $6.6 million compared with Q4 2014. The decrease was attributable to reduced proceeds from the exercise of stock options and warrants of $2.0 million and increased debt repayments of $0.8 million during Q4 2015 compared with Q4 2014. Q4 2014 had a draw of $3.8 million on the capital financing facility that did not occur during Q4 2015.

Net cash flows provided by financing activities for the year ended December 31, 2015 increased by $37.4 million compared with the same period in 2014. The majority of the increase came from the completion of the bought deal offering in June 2015, whereby 5,175,000 Common Shares were issued at $8.35 per Common Share for gross proceeds of approximately $43.2 million ($40.6 million, net), partially offset by a reduction in the draw on the capital financing facility of $1.7 million and higher debt and interest repayments of $1.5 million.

NON-IFRS MEASURES

Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A %, Adjusted EBITDA, Adjusted EBITDA % and cash provided by operating activities before changes in non-cash working capital are non-IFRS measures.

Adjusted gross profit and adjusted gross profit %

Adjusted gross profit is calculated as gross profit before the deduction of the depreciation of equipment and tooling for manufacturing-related assets that is included in cost of goods sold. Adjusted gross profit % is calculated as adjusted gross profit divided by revenue. We use this as a primary indicator of our manufacturing and operating performance. As manufacturing volumes and revenue rise, production synergies permit improvements in gross profit. The following table reconciles gross profit and adjusted gross profit to the consolidated statements of income and comprehensive income.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Revenue	64,988	57,945	236,625	187,329
Cost of goods sold ("COGS")	36,545	32,895	135,169	109,286
Gross profit	**28,443**	**25,050**	**101,456**	**78,043**
Gross profit %	**43.8%**	**43.2%**	**42.9%**	**41.7%**
Add back:				
Depreciation included in COGS	887	666	3,040	2,236
Adjusted gross profit	**29,330**	**25,716**	**104,496**	**80,279**
Adjusted gross profit %	**45.1%**	**44.4%**	**44.2%**	**42.9%**

Adjusted SG&A and adjusted SG&A %

Adjusted SG&A is a measurement of our funded SG&A costs in the period, and is calculated as SG&A before deductions for non-cash depreciation and amortization of non-manufacturing-related assets, stock-based compensation expense and non-cash one-time commission adjustment. Adjusted SG&A % is calculated as adjusted SG&A divided by revenue. We use this as a measure of the efficiency and effectiveness of our sales and marketing efforts and overall administrative support efforts by comparing them to prior period results. The following table reconciles SG&A and adjusted SG&A to the consolidated statements of income and comprehensive income.

	Q4	Q4	Year ended December 31,	
	2015	2014	2015	2014
			($ thousands)	
SG&A	21,073	18,470	85,230	70,235
Less: Depreciation included in SG&A	(2,706)	(1,347)	(9,508)	(7,650)
Less: Stock-based compensation expense included in SG&A	(1,157)	(628)	(3,109)	(1,398)
Adjusted SG&A before non-cash one-time commission adjustment	**17,210**	**16,495**	**72,613**	**61,187**
Add: Non-cash one-time commission adjustment	2,925	-	-	-
Adjusted SG&A	**20,135**	**16,495**	**72,613**	**61,187**
Adjusted SG&A %	**31.0%**	**28.5%**	**30.7%**	**32.7%**

Adjusted EBITDA and Adjusted EBITDA %

EBITDA represents an indication of the entity's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their age, technological validity, and management's estimate of their useful life. Accordingly, EBITDA is earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is EBITDA plus non-cash foreign exchange gains or losses on debt revaluation; gains or losses on disposal of property, plant and equipment and intangible assets; write-off of property, plant and equipment and intangible assets; non-cash stock-based compensation expense; transaction costs; non-cash one-time commission adjustment and any other non-recurring gains or losses. Adjusted EBITDA % is calculated as Adjusted EBITDA divided by revenue. We use these measures to assess our ability to generate cash flows, service debt, pay current taxes, and fund capital expenditures. Readers are cautioned that Adjusted EBITDA should not be considered as an alternative to profit as determined in accordance with IFRS.

The following table reconciles EBITDA and Adjusted EBITDA to the consolidated statements of income and comprehensive income.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net income for the period	9,127	6,553	17,892	5,954
Add back (deduct):				
Finance costs	86	77	395	1,359
Interest income	(188)	(110)	(548)	(291)
Income tax (recovery) expense	(1,501)	504	291	637
Depreciation included in COGS	887	666	3,040	2,236
Depreciation and amortization included in SG&A	2,706	1,347	9,508	7,650
EBITDA	**11,117**	**9,037**	**30,578**	**17,545**
Stock-based compensation	1,157	628	3,109	1,398
Non-cash loss on derecognition of liability	-	-	-	307
Loss (gain) on sale of property, plant and equipment	22	3	106	(17)
Secondary offering transaction costs	-	-	-	508
Non-cash foreign exchange loss on debt revaluation	202	125	916	175
Adjusted EBITDA before non-cash one-time commission adjustment	**12,498**	**9,793**	**34,709**	**19,916**
Non-cash one-time commission adjustment	(2,925)	-	-	-
Adjusted EBITDA	**9,573**	**9,793**	**34,709**	**19,916**
Adjusted EBITDA %	**14.7%**	**16.9%**	**14.7%**	**10.6%**

Cash provided by operating activities before changes in non-cash working capital

Cash provided by operating activities before changes in non-cash working capital is a non-IFRS performance measure that could provide an indication of our ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "net cash flows provided by operating activities" as presented in the consolidated statements of cash flows.

The following table reconciles net cash flows provided by operating activities before changes in non-cash working capital to the consolidated statements of cash flows.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net cash flows provided by operating activities	7,481	13,363	32,693	13,789
Changes in non-cash working capital	5,517	(3,505)	4,519	6,248
Net cash flows provided by operating activities before changes in non-cash working capital	**12,998**	**9,858**	**37,212**	**20,037**

CAPITAL RESOURCES AND MANAGEMENT

We aim to manage our capital resources to ensure financial strength and to maximize our financial flexibility by maintaining strong liquidity, and by utilizing alternative sources of capital including equity, debt and bank loans or lines of credit to fund continued growth.

We set the amount of capital in proportion to risk and based on the availability of funding sources. We manage the capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

As a young growth company, issuing equity has been our primary source of capital to date. The bought deal financing completed in June 2015 provided us with net proceeds of approximately $40.6 million. However, additional debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. In order to maintain or adjust the capital structure, we may return capital to shareholders, issue new shares, take on additional debt, or sell assets to reduce debt.

As at December 31, 2015 and December 31, 2014, our tangible net worth was $156.6 million and $91.6 million, respectively, which were in excess of the minimum tangible net worth of $60.0 million required by our lender.

“Tangible Net Worth” is defined as the sum of the capital stock of the Company and its subsidiaries, plus subordinated debt, minus intangible assets net of amortization, and goodwill, all as determined in accordance with IFRS. Software and product development is not considered an intangible asset for purposes of this definition.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at December 31, 2015:

	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
			($ thousands)		
Operating lease	28,742	5,980	11,826	8,374	2,562
Trade accounts payable and other liabilities	23,597	23,597	-	-	-
Customer deposits	7,094	7,094	-	-	-
Interest obligations from current portion of long-term debt	257	257	-	-	-
Principal repayments from current portion of long-term debt	3,663	3,663	-	-	-
Interest obligations from long-term debt	213	-	213	-	-
Principal repayments from long-term debt	5,498	-	5,498	-	-
Purchase obligations	2,744	2,744	-	-	-
	71,808	**43,335**	**17,537**	**8,374**	**2,562**

Contingent Liabilities

We make income, sales and other tax filings based upon tax positions that, while believed by management to be reasonable, could be subject to challenge upon an audit. Such a challenge could give rise to an impact to the financial statements in the event that the tax positions taken by management are found to be incorrect.

OUTSTANDING SHARE DATA

The total number of fully diluted outstanding and issuable Common Shares is as follows:

As at	March 16, 2016	December 31, 2015
Common shares	84,536,016	84,501,488
Stock options [(1)]	5,694,774	5,752,419
Warrants [(1)]	100,000	100,000
Total	90,330,790	90,353,907

Note:

[(1)] Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At December 31, 2015, a note receivable of $0.4 million (2014 - $0.5 million) remains outstanding from Mogens Smed ("Mr. Smed"), a shareholder, officer and a director of DIRTT. The note receivable bears interest at 5% with monthly payments of $3,750, including interest, and is secured by a pledge of 250,000 Common Shares held by Mr. Smed. The note receivable was advanced to Mr. Smed to enable him to meet certain personal financial obligations after he, at the request of DIRTT, agreed to be issued Common Shares rather than cash on maturity of $0.5 million principal amount of convertible debentures issued to Mr. Smed on February 1, 2005. The $0.5 million advanced to DIRTT by Mr. Smed was used by us to meet certain financial obligations.

One of our DPs, Lane Office Furniture Inc., is owned by a director of the Company, Gregory Burke. During the years ended December 31, 2015 and 2014, the Company reported the following transactions with this DP:

For the year ended December 31,	2015	2014
	($ thousands)	
Revenue earned	6,035	5,073
Rebates paid	68	50
As at December 31,	**2015**	**2014**
Outstanding accounts receivable	370	409
Outstanding deposits received	237	274

All transactions with related parties have occurred in the normal course of operations at arm's length, except for the note receivable, and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our activities expose us to a variety of financial risks: credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, and commodity price risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables and notes receivable. The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies. Our credit risk is primarily concentrated in our trade receivables. The amounts disclosed in the consolidated statement of financial position are net of allowances for doubtful accounts, estimated by management based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce our risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance (see below) for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad, geographically dispersed customer base. We do not have significant exposure to any individual customer. A number of factors are considered in determining the likelihood of impairment. We also have a contract with Export Development Canada ("EDC"), Canada's export credit agency, whereby some of our trade receivables are insured. EDC determines the coverage amount, if any, on a customer-by-customer basis. Based on our trade receivables balance as at December 31, 2015, 64.1% (2014 – 56.9%) of that balance is covered by EDC. Substantially all of the remaining balance is less than 90 days old and is owed by a small number of DIRTT's strong-performing DPs, on which the Company has a high level of confidence of collectability, and government sales that are not covered by EDC. We consider trade receivables greater than 90 days as past due and as at December 31, 2015, the amount outstanding was $1.6 million, net of allowance for doubtful accounts of $0.7 million. We only provide for balances that we consider to be at risk of collection. As a result, we believe that our exposure to credit risk is limited.

Liquidity risk

Our objective is to maintain sufficient cash and to ensure we have sufficient authorized credit facilities as financing sources to reduce liquidity risk. We had unused credit facilities of US$18.0 million as at December 31, 2015 and 2014. We monitor our cash balances and cash flows generated from operations to meet our requirements. Our financial liabilities include trade accounts payable and other liabilities, customer deposits, and long-term debt. The ability to pay our obligations relies on collecting our trade receivables in a timely manner. We believe our cash and cash equivalents on hand, cash flows generated from operations, and our available credit facilities will together provide sufficient funding to meet our obligations.

Market risk

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

Interest rate risk

Certain of our financial liabilities are subject to interest charges at floating rates, and are exposed to fluctuations in interest rates. At December 31, 2015, term loans totaling $9.2 million (2014 - $9.5 million) are subject to floating interest rates. An increase in overall interest rates by

0.5% would increase interest expense related to these items and decrease net income and comprehensive income by $45,804 for the year ended December 31, 2015 (2014 - $47,318). An equal decrease in rates would generate an equal amount of interest savings.

Foreign exchange risk

We are mainly exposed to fluctuations between the US dollar and the Canadian dollar, DIRTT's reporting currency. A portion of our revenue and operating costs are realized in US dollars. In addition, some of our monetary assets, such as cash and cash equivalents, trade receivables and inventory; and monetary liabilities, such as trade accounts payable and other liabilities, customer deposits, and long-term debt, are denominated in US dollars. As a result, we are exposed to currency risk from the translation of these transactions and balances at each reporting period. Our objective in managing currency risk is to minimize our exposure to the US dollar. This risk is mitigated by the fact that our business does not require us to carry high levels of inventory. Quick turnover of inventory minimizes the effect of any such changes in exchange rates. We purchase a large portion of our inventory in US dollars. For the year ended December 31, 2015, with a 10% change in the US dollar (for obligations that would be retired in six months or less) and a 20% change in the US dollar (for obligations that would be retired in greater than six months), the impact to the net income and comprehensive income would be a decrease/increase of $0.3 million (2014 - $0.2 million).

Commodity price risk

In our business, we consume raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, glass, paint and powder, and fabric and vinyl. Aluminum represents the largest component of our raw materials consumption. Generally, our aluminum inventory is low as we have a fast turnaround time for the majority of our projects. This is a low risk to DIRTT but aluminum prices can fluctuate and represents approximately 16% of our overall cost of goods sold.

Fair value of financial instruments

This analysis is based on the degree to which the fair value is observable and grouped into categories accordingly:

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets and liabilities. Level 1 financial instruments include cash and cash equivalents, trade and other receivables, note receivable, trade accounts payable and other liabilities, customer deposits, and current and long-term debt.
- Level 2 financial instruments are those which can be derived from inputs that are observable for the financial asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company does not have any Level 2 financial instruments.

- Level 3 financial instruments are those which can be derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market rate (unobservable inputs). Level 3 financial instruments include convertible note receivable.
- Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risk. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The fair values of our financial instruments were determined as follows:

  (i) The carrying amounts of cash and cash equivalents, trade and other receivables, trade accounts payable and other liabilities, and customer deposits approximate fair value due to their short-term nature;
  (ii) The carrying amount of note receivable approximates fair value as it bears interest at a market rate, and have reasonable repayment terms;
  (iii) Included in other assets in 2015 is an insignificant convertible note receivable amount that does not have a quoted market price. The carrying amount of this convertible note receivable is carried at fair value using the Black-Scholes method and the value of the underlying entity by employing the best information available at each measurement date; and
  (iv) The current and long-term debts are carried at amortized cost. The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to us for similar financial instruments subject to similar risks and maturities. The carrying amounts of these instruments approximates fair value due to their respective floating interest rates.

OUTLOOK

Construction is a major global industry and consists of building new structures, making additions and modifications to existing structures, as well as conducting maintenance, repair and leasehold improvements on existing structures. The total US construction market was US$1.1 trillion in 2015, of which US$674 billion was attributable to non-residential building and US$423 billion was attributable to residential building *[Source: US Census Bureau]*. This includes both new building and renovation projects. Total US non-residential and residential construction spending is forecast to grow to US$796 billion and US$512 billion, respectively, in 2019 *[Source: FMI US Markets Construction Overview 2016]*. We believe conventional construction activities are fraught with challenges including cost overruns, quality issues, labor shortages and time delays and increasingly organizations are looking for a better way to build out their interior spaces, whether for new buildings or renovations.

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 - a recent example of which is the Corning® Willow® Glass initiative signed in February 2015.

With the recent launch of our residential and timber frame solutions at DIRTT Connext, we have officially entered into these markets. We do not expect to see meaningful revenue from these markets in the near term.

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 and government, and new opportunities in the hospitality and residential sectors of the construction industry. Our product development team has been and, we expect will continue to be, expanded to address industry-specific challenges and opportunities.

The American Institute of Architects' (AIA) Architecture Billings Index (ABI) can be a useful leading economic indicator of how non-residential billing activity could trend. In its review of the January 2016 numbers, the AIA suggested that falling energy prices and growing international economic concerns contributed to a very slight decline in billings growth. However, the volume of inquiries continued to increase, albeit at a slightly lower pace sequentially, following a generally positive performance in 2015. 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.

DIRTT believes that extended softness in global commodity pricing could result in continued weakness for the energy sector in 2016. The gross US$30.0 million contract announced in mid-2014 remains deferred until further notice. Growth in non-energy related sectors is more than offsetting the current weakness in the energy sector, which represents approximately 10% of our revenue in 2015. DIRTT anticipates some benefits from reduced input costs for raw materials and transportation charges as a result of softness in global commodity pricing for the first half and potentially the remainder of 2016.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. The estimates and associated assumptions are continuously evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years include: cash generating units; impairment of non-financial assets; share-based transactions; income taxes; useful lives of property, plant and equipment and intangible assets; segment reporting; allowance for doubtful accounts; DP rebates; and warranties.

Cash generating units

A cash generating unit ("CGU") is the smallest identifiable group of assets that generate cash flows that are independent of cash flows from other assets or groups of assets. We have two separate CGUs, DIRTT and Ice Edge. The determination of CGUs requires judgment from management with regards to the shared infrastructure, geographical location, exposure to market risks and materiality.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's-length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from management's projection for the next five years and do not include restructuring activities that we have not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate, as selected by management, based on the discounted cash flow model as well as the expected future cash inflows and the growth rate used.

Share-based transactions

We measure the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the share option.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. We review the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment and intangible assets

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

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segment and has been identified as our Chief Executive Officer and the senior management team. We have identified one operating segment.

Allowance for doubtful accounts

We make allowance for doubtful accounts based on an assessment of the recoverability of our trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables.

Distribution Partner rebates

DPs are eligible for a 5% rebate on projects that meet specific criteria. The provision is determined using management's best estimate of the amounts expected to be paid under the rebate program based on the DP's eligibility at the end of each reporting period.

Warranties

Provisions for warranties are made using the best estimate of the amount expected to be claimed based on historical experience. The Company reviews the adequacy of these warranties provisions at the end of each reporting period.

FUTURE ACCOUNTING PRONOUNCEMENTS

We have reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on our financial statements:

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. In July 2014, the IASB published the final version of IFRS 9, which replaced earlier versions of this standard and the project to replace IAS 39 is now complete. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently assessing the impact of this standard.

In May 2014 the IASB and the US Financial Accounting Standards Board issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", which replaces all existing IFRS and US GAAP revenue requirements. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted under IFRS. The Company is currently assessing the impact of this standard.

In September 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process, "Annual Improvements to IFRS (2012-2014)". The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments will apply prospectively for annual periods beginning on or after January 1, 2016; earlier application is permitted, in which case the related consequential amendments to other IFRSs would also apply. The Company is currently assessing the impact of these amendments.

In January 2016 the IASB issued a new standard, IFRS 16 "Leases", which requires lessees to recognize assets and liabilities for most leases, eliminating the distinction between operating and finance leases. For lessors, there is little change to the existing accounting in IAS 17 "Leases". IFRS 16 supersedes IAS 17 and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS.

"Internal control over financial reporting" means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

Based on a review of the Company's internal control procedures, the CEO and CFO have concluded that the internal controls and procedures were appropriately designed and operated effectively as at December 31, 2015. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management considers the non-cash one-time adjustment related to its over-accrual of commission expense as a deficiency, though not a material weakness, in DIRTT's internal controls over financial reporting. As a result of the foregoing deficiency, management has implemented procedures and additional resources to do a more rigorous review of commission expense and its related accrual.

There were no changes to the Company's internal controls over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's CEO and CFO have each evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at December 31, 2015 and have concluded that these controls and procedures were appropriately designed and operated effectively.

"Disclosure controls and procedures" means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

RISK AND UNCERTAINTIES

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry which may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

Maintaining and managing growth

Our success will depend in part on our ability to maintain and manage growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and reporting systems and procedures. Failure to effectively manage growth could result in difficulty in implementing products or securing customers and DPs, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features, or other operational difficulties. Any of these difficulties could adversely impact our business performance and results of operations.

History of losses

We have incurred significant losses since our inception and have only been profitable for the years ended December 31, 2015, December 31, 2014, September 30, 2010 and September 30, 2009. Recently, we have incurred net losses of $16.5 million for the year ended December 31, 2013; $7.1 million for the 15 months ended December 31, 2012 and $4.8 million for the year ended September 30, 2011. As at December 31, 2015, we had an accumulated deficit of $39.3 million. These losses and accumulated deficit were due in part to the substantial investments made to grow our business and acquire customers, to further develop our service offerings through product and software development, and to ensure we have sufficient production capacity and capability to deliver on our commitment of rapid delivery times. We expect our operating expenses to increase in the future due to an expected increase in sales and marketing expenses; higher product development costs and general and administrative costs. Readers should not consider our revenue growth as indicative of our future performance. There can be no assurance that we will achieve and/or sustain profitability in the future.

New technology

Our success will depend in part on our ability to develop our software and products that keep pace with the continuing changes in technology, evolving industry standards and changing client preferences and requirements. Our software and products embody complex technology that may not meet those standards, changes and preferences. We may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of software and new products or enhancements to existing software and products could cause us to be unable to recover significant research and development expenses and could reduce our revenue.

Competition

We operate in a highly competitive industry that is constantly evolving and changing. We expect this competition to increase as new competitors enter the market. Many of our competitors may have greater financial, technical, sales, and production and marketing resources. There is no assurance that we will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

Operating results and financial condition may fluctuate on a quarterly and annual basis

Our operating results and financial condition may fluctuate from quarter to quarter and year to year, and are likely to continue to vary due to a number of factors, some of which are outside of our control. Furthermore, our actual or projected operating results may fail to match our past performance. These events could in turn cause the market price of the Common Shares to fluctuate. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of the Common Shares will likely decline.

Our operating results and financial condition may fluctuate due to a number of factors, including those listed below and those identified throughout this "Risks and Uncertainties" section:

- the development of new competitive products or processes by others;
- the entry of new competitors into our market whether by established companies or by new companies;
- changes in the size and complexity of our organization, including our international operations;
- levels of sales of our products and services to new and existing customers;
- the geographic distribution of our sales;
- changes in customer preferences or needs;
- changes in the amount that we invest to develop, acquire or license new products and processes, which we anticipate will generally increase and may fluctuate in the future;
- delays between our expenditures to develop, acquire or license new products and processes, and the generation of sales related thereto;
- our ability to timely and effectively scale our business during periods of sequential quarterly or annual growth;
- limitations or delays in our ability to reduce our expenses during periods of declining sequential quarterly or annual revenue;
- changes in our pricing policies or those of our competitors, including our responses to price competition;
- changes in the amount we spend in our marketing and other efforts;
- unexpected increases in expenses as compared to our related accounting accruals or operating plan;
- the volatile global economy;
- falling energy prices;
- fluctuations in the US dollar against the Canadian dollar;

- general economic and industry conditions that affect customer demand and product development trends; and
- changes in accounting rules and tax and other laws.

Due to all of the foregoing factors and the other risks discussed in this "Risks and Uncertainties" section, readers should not rely on quarter-to-quarter or year-to-year comparisons of our operating results as an indicator of future performance.

Intellectual property

Our success will depend in part on our ability to obtain patents, maintain trade secrets and protect unpatented expertise, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent our rights. We rely on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures, and other measures to protect our proprietary information. As of December 31, 2015, DIRTT and Ice Edge have 109 patents granted and 168 patents pending with numerous new patent applications being finalized. There can be no assurance that the steps taken will prevent misappropriation of our proprietary rights. Our competitors could also independently develop technology similar to our technology. Although we do not believe that our software or products infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us, or that any such assertions or prosecutions will not adversely affect our business, financial condition, or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources with respect to the defense thereof, which could have an adverse effect on our business.

Additional capital requirements

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to expand sales and marketing activities; develop our DP network; develop new software, products or features; enhance our operating infrastructure; and acquire complementary businesses and technologies. Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities. We can provide no assurance that sufficient debt or equity financing will be available for necessary or desirable infrastructure expenditures or acquisitions or to cover losses, and accordingly, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Customer base and market acceptance

While we believe we can grow our client base, our inability to grow such a client base could have a material adverse effect on our business. Although we believe that our products offer advantages over competitive companies and products, no assurance can be given that our products will attain a degree of market acceptance on a sustained basis, or that it will generate revenues sufficient for sustained profitable operations.

Software and product defects and design risks

Our software and products are complex and must meet the stringent technical requirements of our customers. Our products may contain undetected errors or defects. In addition, ICE may also experience quality or reliability problems. ICE may contain bugs and other defects that interfere with its intended operation. The foregoing could result in the rejection of our products by our clients and damage to our reputation, repair and remediation costs and lost revenues, any of which could harm our business. Although we have product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms. In addition, we provide clients with a warranty on products we manufacture. The warranty generally provides that products will be free from defects for a period of 10 years. If a product fails to comply with the warranty, we may be obligated, at our expense, to correct any defect by repairing or replacing the defective product. Although we maintain warranty reserves in an amount based primarily on production and on historical and anticipated warranty claims, there can be no assurance that future warranty claims will follow historical patterns or that we can accurately anticipate the level of future warranty claims. An increase in the rate of warranty claims or the occurrence of unexpected warranty claims could materially and adversely affect our financial condition, results of operations, and cash flows.

Availability of key supplies

We rely on certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies as a result of trade disputes or other matters. While no single vendor currently supplies more than 10% of the raw materials used by us, the raw materials used in certain operations are available only through a limited number of vendors. Although we believe there are alternative suppliers for most of our key requirements, if our current suppliers are unable to provide the necessary raw materials or otherwise fail to timely deliver products in the quantities required, any resulting delays in the manufacture or distribution of existing products could have a material adverse effect on our results of operations and financial condition.

Dependence on key personnel

Our success largely depends on the performance of our key personnel. The unexpected loss or departure of any of our key officers or other employees could be detrimental to our future operations. Our success will depend in part on our ability to attract and retain qualified personnel as they are needed. The competition for highly skilled technical, research and development, management, sales, and other employees is high in our industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

Commodity price risk

We are subject to commodity price risk relating principally to fluctuations in material prices used in the supply chain, such as aluminum, which could materially and adversely affect our business, financial condition, and results of operations. In an effort to mitigate these risks, we seek to enter into long-term arrangements with our supplier base.

Credit risk

We have undergone significant sales growth resulting in a significant growth in our DP network and client base. As a result, we have an increasing exposure to credit risk related to trade balances owing from our DPs and clients. In the normal course of business, we monitor the financial condition of our DPs and clients and review the credit history of our new DPs and clients to establish credit limits. We establish an allowance for doubtful accounts that corresponds to the credit risk of our DPs and clients, historical trends, and economic circumstances. We could realize losses if DPs and clients default on their balances owing.

Government regulation

Our products are subject to government regulation in the US and Canada, and other regions in which we operate. Although we believe we have obtained the necessary approvals for the products that we currently sell, we may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries in which we may desire to sell products in the future.

International expansion

To date, we have not realized a material portion of our revenue from customers outside of the US and Canada. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from those in the US and Canada. Because of our limited experience with international operations, we cannot guarantee our international expansion efforts will be successful. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- our ability to comply with differing technical and certification requirements outside of the US and Canada;
- difficulties and costs associated with staffing and managing foreign operations;
- difficulties in integrating foreign operations and maintaining an enterprise-wide consistent corporate culture;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- unexpected changes in regulatory requirements;
- the need to adapt the ICE Software and products for specific countries and languages;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- restrictions on the transfer of funds; and
- new and different sources of competition.

Our failure to manage any of these risks successfully could harm our existing and future international operations and seriously impair our overall business.

Physical facilities

We have facilities at several different locations, as well as component inventory and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such events or acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

Legal risks

We are subject to legal risks related to operations, contracts, relationships, and other circumstances under which we may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs, and other costs, as well as significant time and distraction of management and employees.

Foreign currency and fiscal matters

Our operations, expenditures, and revenues are to some extent paid in foreign currencies. As a result, we are exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material drop in the value of any such foreign currency could result in a material adverse effect on our cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings to foreign entities in any of the jurisdictions where we currently operate. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from such jurisdictions will not be imposed in the future. Amendments to current taxation laws and regulations, which alter tax rates and/or capital allowances, could have a material adverse impact on our business. To the extent that revenues and expenditures denominated in or strongly linked to the US dollar are not equivalent, we are exposed to exchange rate risk. We are exposed to the extent US dollar revenues do not equal US dollar expenditures. We are not currently using exchange rate derivatives to manage exchange rate risks.

Future acquisitions

We may seek to expand our business and capabilities through the acquisition of compatible technology, products, or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favorable terms, or that the acquired operations can be profitably operated or integrated in our operations. To the extent we are successful in identifying suitable companies or products for acquisition, we may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares or convertible securities could result in dilution to shareholders at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain of our assets, impeding our ability to obtain bank financing, decreasing our liquidity, and adversely affecting our ability to declare and pay dividends to shareholders.

Reliance on third parties

We rely on our DPs and other third-party service providers for certain services critical to our business. If these third parties experience difficulty meeting our requirements or standards, it could make it difficult for us to operate some aspects of our business. In addition, if such third parties were to cease operations, temporarily or permanently, face financial distress or any other business disruption, we could suffer increased costs and delays in our ability to operate our business until an equivalent provider could be found or we can develop replacement technology or operations. There is no assurance we would be able to do so on acceptable financial terms, or at all. In addition, if we are unsuccessful in choosing high-quality partners or ineffectively manage these partners, it could have an adverse impact on our business and financial performance.

Conflicts of interest

Certain of our directors are engaged and will continue to be engaged in businesses similar to ours and situations may arise where the directors may be in direct competition with our business. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Business Corporations Act (Alberta) which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with us to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the Business Corporations Act (Alberta).