DIRTT Environmental Solutions Ltd.

Condensed Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

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Condensed Consolidated Statements of Financial Position

(Unaudited - Stated in thousands of Canadian dollars)

As at		March 31, 2014	December 31, 2013
	Notes	$	$
ASSETS			
Current Assets			
Cash and cash equivalents		30,322	34,373
Trade and other receivables		17,789	17,166
Inventory		9,373	11,376
Prepaids and other current assets		1,986	1,058
		59,470	63,973
Non-current Assets			
Long-term deposits		570	522
Property, plant and equipment		29,966	29,986
Intangible assets		10,691	10,112
Notes receivable	12	481	486
Deferred tax assets		2,106	1,967
Goodwill		1,845	1,845
		45,659	44,918
Total Assets		105,129	108,891
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable and accrued liabilities		11,593	12,550
Customer deposits		3,978	8,370
Current portion of long-term debt	5	2,449	2,419
Provisions		531	469
Current tax liabilities		475	314
		19,026	24,122
Non-current Liabilities			
Deferred tax liabilities		651	592
Long-term debt	5	5,183	5,673
Convertible notes	6	10,565	9,904
		16,399	16,169
Shareholders' Equity			
Common share capital		123,292	123,127
Warrants		1,101	1,101
Equity component of convertible notes		57	57
Contributed surplus		6,171	6,192
Accumulated other comprehensive income		2,323	1,293
Accumulated deficit		(63,240)	(63,170)
		69,704	68,600
Total Liabilities and Shareholders' Equity		105,129	108,891

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

Condensed Consolidated Statements of Loss and Comprehensive Income (Loss)

(Unaudited - Stated in thousands of Canadian dollars, except per share amounts)

		For the three months ended	
		March 31, 2014	March 31, 2013
	Notes	$	$
Revenue		40,515	30,391
Cost of goods sold		23,425	20,750
Gross profit		17,090	9,641
Selling, general and administrative		16,092	12,566
Operating income (loss)		998	(2,925)
Foreign exchange loss		228	342
Interest income		(70)	(4)
Finance costs	8	616	1,316
Income (loss) before tax		224	(4,579)
Current tax expense		312	-
Deferred tax recovery		(18)	-
		294	-
Net loss for the period		(70)	(4,579)
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax of $nil (2013 - $nil)		1,030	497
Total comprehensive income (loss) for the period		960	(4,082)
Loss per share			
Basic and diluted	9	(0.00)	(0.13)

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

Condensed Consolidated Statements of Changes in Equity

(Unaudited - Stated in thousands of Canadian dollars)

	Common share capital	Preferred share capital	Warrants	Equity component of convertible notes	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
	$	$	$	$	$	$	$	$
As at December 31, 2012	54,268	8,604	1,101	4,003	5,748	(318)	(46,675)	26,731
Net loss for the period	-	-	-	-	-	-	(4,579)	(4,579)
Other comprehensive income for the period, net of tax	-	-	-	-	-	497	-	497
Stock-based compensation	-	-	-	-	142	-	-	142
As at March 31, 2013	54,268	8,604	1,101	4,003	5,890	179	(51,254)	22,791
As at December 31, 2013	123,127	-	1,101	57	6,192	1,293	(63,170)	68,600
Net loss for the period	-	-	-	-	-	-	(70)	(70)
Other comprehensive income for the period, net of tax	-	-	-	-	-	1,030	-	1,030
Stock-based compensation	-	-	-	-	47	-	-	47
Issued on the exercise of stock options	165	-	-	-	(68)	-	-	97
As at March 31, 2014	123,292	-	1,101	57	6,171	2,323	(63,240)	69,704

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

Condensed Consolidated Statements of Cash Flows

(Unaudited - Stated in thousands of Canadian dollars)

		For the three months ended	
		March 31, 2014	March 31, 2013
	Notes	$	$
Cash flows from operating activities:			
Net loss for the period		(70)	(4,579)
Items not affecting cash:			
Depreciation included in cost of goods sold		533	599
Depreciation and amortization included in selling, general and administrative		1,952	1,578
Stock-based compensation	7	47	142
Income tax provision		294	-
Finance cost	8	616	1,316
Non-cash foreign exchange loss on debt revaluation		413	544
Non-cash foreign exchange loss		433	158
Net change in non-cash working capital relating to operating activities	10	(4,892)	(715)
Cash taxes paid		(157)	-
Net cash flows used in operating activities		(831)	(957)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,047)	(714)
Capital expenditures on internally generated intangible assets		(1,335)	(1,140)
Receipt of proceeds from notes receivable		5	-
Net cash flows used in investing activities		(2,377)	(1,854)
Cash flows from financing activities:			
Issuance of share capital on exercise of stock options		97	-
Interest paid on convertible notes		(252)	(408)
Repayment of long-term debt		(611)	(582)
Interest paid on long-term debt		(77)	(31)
Net cash flows used in financing activities		(843)	(1,021)
Net decrease in cash and cash equivalents		(4,051)	(3,832)
Cash and cash equivalents and restricted cash, beginning of period		34,373	8,826
Cash and cash equivalents, end of period		30,322	4,994
Cash and cash equivalents consists of:			
Cash		2,319	4,994
Temporary investments		28,003	-
		30,322	4,994

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

Notes to the Condensed Consolidated Financial Statements

March 31, 2014

(Unaudited - Stated in thousands of Canadian dollars, except share and per share amounts)

1. GENERAL INFORMATION

DIRTT Environmental Solutions Ltd. ("DIRTT" or the "Company") is a leading technology-driven manufacturer of highly customized interiors. DIRTT combines its proprietary 3D design, configuration and manufacturing software ("ICE®" or "ICE Software") with integrated in-house manufacturing of its innovative prefabricated interior construction solutions and an extensive Distribution Partner ("DP") network across two continents. ICE provides accurate design, drawing, specification, pricing and manufacturing process information, allowing rapid production of high-quality custom solutions using fewer resources than traditional manufacturing methods. ICE was developed by Ice Edge Business Solutions Ltd. ("ICE Edge"), a wholly owned subsidiary of DIRTT, and its wholly owned subsidiary, Ice Edge Business Solutions, Inc.

ICE is also sold to select manufacturing and Distribution Partners through ICE Edge.

The address of DIRTT's registered office is 7303 - 30th Street S.E., Calgary, AB, Canada T2C 1N6.

On November 28, 2013, DIRTT completed an initial public offering ("IPO") and issued 15,000,000 shares for gross proceeds of $45.0 million and began trading on the Toronto Stock Exchange ("TSX"), under the symbol "DRT".

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these condensed consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on May 8, 2014.

Basis of measurement

These condensed consolidated financial statements have been prepared using the same policies and methods as those used in the audited consolidated financial statements for the 12 months ended December 31, 2013, except for the impact of the adoption of accounting standards described below. These condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended December 31, 2013. The Company's condensed consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

3. ADOPTION OF NEW AND REVISED IFRS

The Company has reviewed the impact of the new and revised accounting pronouncements outlined below, and has determined these standards did not have a material impact upon adoption on January 1, 2014.

IAS 32, "Financial Instruments: Presentation", was amended by the International Accounting Standards Board ("IASB") in December 2011 and is effective for annual periods beginning on or after January 1, 2014, with retrospective application required. The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement". The adoption of these amendments did not have an impact on the Company's financial position or performance.

3. ADOPTION OF NEW AND REVISED IFRS (CONTINUED)

IAS 36, “Impairment of Assets” was amended by the IASB in May 2013 and is effective for annual periods beginning on or after January 1, 2014. The overall effect to the amendments to IAS 36 is to reduce the circumstances in which the recoverable amount of assets or cash generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The adoption of these amendments did not have an impact on the Company’s financial position or disclosures.

IAS 39, “Financial Instruments: Recognition and Measurement” was amended by the IASB in June 2013 and is effective for annual periods beginning on or after January 1, 2014, with earlier application being permitted. The objective of the amendments is to avoid any impact on an entity’s hedge accounting from derecognizing the derivative, following its novation. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. The adoption of these amendments did not have an impact on the Company’s financial position or performance.

In May 2013, the IASB issued IFRS Interpretations Committee (“IFRIC “) 21, “Levies”, an interpretation on the accounting for levies imposed by governments. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, “Provisions, contingent liabilities and contingent assets”. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company’s financial position or performance.

4. RECENT ACCOUNTING PRONOUNCEMENTS

The Company has 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 the Company:

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 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

5. LONG-TERM DEBT

As at ($ thousands)	March 31, 2014	December 31, 2013
	$	$
Capital financing facility, secured by a charge on all assets including manufacturing equipment, with 30 monthly payments of $143 plus interest at floating rate, which is based on the lender's Canadian prime rate plus 0.5% and 30 monthly payments of US$18 plus interest at floating rate, which is based on the lender's US prime rate plus 0.5%. Principal payments began in January 2014.	4,408	4,874
Term loan, secured by a charge on all assets including manufacturing equipment, with 60 monthly payments of US$21 plus interest at floating rate, which is based on the lender's prime rate plus 0.5%. Principal payments began in January 2014.	2,694	2,659
Finance lease, secured by a charge on specific manufacturing equipment, with 60 monthly payments of US$17 including interest.	512	538
Finance lease, secured by a charge on specific manufacturing equipment, with 36 monthly payments of US$1 including interest.	18	21
	7,632	8,092
Less: Current portion of long-term debt	(2,449)	(2,419)
Long-term debt	5,183	5,673

As at March 31, 2014, the Company has available a revolving operating facility of US$18.0 million. Commencing in January 2014, the Company began principal payments of the capital financing facility and term loan facility.

6. CONVERTIBLE NOTES

($ thousands)	Equity component	Debt component
	$	$
At December 31, 2013	57	9,904
Interest accretion	-	272
Foreign exchange revaluation	-	389
At March 31, 2014	57	10,565

At the option of the holders, the convertible notes are convertible into the Company's common shares at a conversion rate of 472 common shares per US$1,000 principal amount of convertible notes representing a conversion price of approximately US$2.12 per common share, subject to adjustment in certain events.

At the option of DIRTT, the convertible notes are convertible into the Company's common shares at the applicable conversion rate upon written notice to the holders if the closing price of the Company's common shares on the TSX is at least 135.0% of the conversion price for no less than 20 trading days in the period of 30 consecutive trading days and the common shares held by the holders are not subject to any restrictions, encumbrances or prohibitions on transfer, legal or otherwise (including any lock-up agreements).

7. SHARE-BASED TRANSACTIONS

The Company has a stock option plan which is approved by the Board of Directors whereby the aggregate number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares as at the time of grant of any options. Options granted under the plan generally have a term of five years and vest 1/3 every year over a three-year period from the date of grant. For the three months ended March 31, 2014, 110,000 options were granted at an exercise price of $2.96 and 46,214 options were exercised. There were no options granted or exercised during the same period in 2013.

7. SHARE-BASED TRANSACTIONS (CONTINUED)

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

	Number of options	Weighted average exercise price $
Outstanding at December 31, 2013	4,315,867	2.32
Granted	110,000	2.96
Exercised	(46,214)	2.10
Forfeited	(8,201)	2.01
Expired	(9,750)	3.20
Outstanding at March 31, 2014	4,361,702	2.34
Exercisable at March 31, 2014	3,577,814	2.47

Range of exercise prices outstanding at March 31, 2014:

Range of exercise prices	Number outstanding	Weighted average remaining contractual years	Weighted average exercise price $	Number Exercisable	Weighted average exercise price $
$1.00 - $1.99	1,237,752	2.5	1.49	607,614	1.48
$2.00 - $2.99	2,024,500	1.3	2.42	1,880,750	2.39
$3.00 - $4.00	1,099,450	0.6	3.15	1,089,450	3.16

The fair value of each stock option was estimated on the date of grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	For the three months ended	
	March 31, 2014	March 31, 2013
Expected option term (years)	5	-
Expected volatility	51%	-
Expected dividend yield	N/A	-
Risk-free interest rate	1.7%	-
Expected forfeiture %	5%	-
Weighted average fair value of option	$ 1.35	-

8. FINANCE COSTS

Finance costs comprise the following amounts:

	For the three months ended	
	March 31, 2014	March 31, 2013
($ thousands)	$	$
Accreted/accrued interest (non-cash):		
Preferred shares	-	298
Convertible notes [(1)]	287	479
Convertible notes [(2)]	-	100
Convertible notes [(1)]	252	408
Credit facilities	77	31
	616	1,316

[(1)] Relates to the remaining US$10.0 million of the original US$20.0 million convertible notes issued in December 2012. Interest of 8% was paid quarterly up to March 6, 2014. Subsequent to March 6, 2014, under the terms of the note purchase agreement, the interest rate was increased to 14% (12% cash and 2% non-cash). The 2% non-cash portion of the interest is included with the accretion expense in the accreted/accrued interest (non-cash) section of the table.

[(2)] Related to $5.0 million convertible notes issued in June 2012. Non-cash interest was accrued at 6% per annum up to November 28, 2013.

9. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the three months ended March 31, 2014 was based on the net loss of $0.1 million (March 31, 2013 - $4.6 million), and a weighted average number of common shares outstanding of 68,892,061 (March 31, 2013 – 36,280,278).

As the Company was in a loss position for the three months ended March 31, 2014 and 2013, all convertible securities were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

10. CHANGE IN NON-CASH WORKING CAPITAL

	For the three months ended	
	March 31, 2014	March 31, 2013
($ thousands)	$	$
Trade and other receivables	(623)	1,872
Inventory	2,003	(145)
Prepaids and other current assets	(928)	602
Long-term deposits	(48)	-
Trade payables and accrued liabilities	(972)	(1,012)
Customer deposits	(4,392)	(2,128)
Provisions	62	59
Current tax liabilities	6	37
	(4,892)	(715)

11. SEGMENT REPORTING

The Company operates in two principal geographic locations, Canada and the United States, and has one operating segment.

The Company's revenue from continuing operations from external customers by location of operations and information about its non-current assets are detailed below.

Revenue from external customers

	For the three months ended	
	March 31, 2014	March 31, 2013
($ thousands)	$	$
Canada	6,572	8,005
USA	33,943	22,386
	40,515	30,391

Selected Consolidated Statement of Financial Position Information – Non-current assets

As at ($ thousands)	March 31, 2014	December 31, 2013
	$	$
Canada	25,627	25,343
USA	17,445	17,122
	43,072	42,465

The amounts above exclude note receivable and deferred tax assets.

12. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Notes receivable are due from an individual who is a shareholder and an officer and director of the Company, bear interest at 5% with monthly payments of $3,750 including interest, commencing in August 2013, and are secured by 250,000 common shares of the Company. At March 31, 2014 the balance outstanding was $0.5 million (December 31, 2013 - $0.5 million).

During the three months ended March 31, 2014, the Company recorded revenue of $2.1 million (March 31, 2013 - $0.6 million) from a DP which is owned by a director of the Company. At March 31, 2014, the outstanding balance in accounts receivable was $0.1 million (December 31, 2013 - $0.2 million), and is included in trade and other receivables. In addition, at March 31, 2014, the outstanding balance in customer deposits received was $0.1 million (December 31, 2013 - $0.4 million).

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

13. CAPITAL MANAGEMENT

The Company has $69.7 million (December 31, 2013 - $68.6 million) of total capital resources, comprised of Shareholders' Equity. The Company also has total debt of $18.2 million (December 31, 2013 - $18.0 million), comprised of current and long-term debt of $7.6 million (December 31, 2013 - $8.1 million), and a debt component of convertible notes of $10.6 million (December 31, 2013 - $9.9 million).

The Company aims to manage its capital resources to ensure financial strength and to maximize its 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.

The Company sets the amount of capital in proportion to risk and based on the availability of funding sources. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

13. CAPITAL MANAGEMENT (CONTINUED)

As a young growth company, issuance of equity has been the primary source of capital to date. Additional debt and/or equity financing may be pursued in future as deemed appropriate to balance debt and equity. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares, take on additional debt or sell assets to reduce debt.

As at March 31, 2014 and December 31, 2013, the Company was in compliance with its lending institutions' debt covenants. The covenant thresholds are detailed below:

At March 31, 2014 and December 31, 2013	
Fixed Charge Coverage Ratio [1]	minimum 1.00:1
Leverage Ratio [1]	maximum 3.50:1
Minimum Tangible Net Worth	44,000,000

[1] Terms of the lending institutions' debt covenants require that the Company be in compliance with stated thresholds for four out of the last five consecutive quarterly measurement periods.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

The Company's principal financial assets are cash and cash equivalents, trade and other receivables, and notes receivable.

The Company's credit risk is primarily concentrated in its trade receivables. The amounts disclosed in the consolidated statement of financial position are net of allowances for doubtful accounts, estimated by the management of the Company based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce its risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance for a significant portion of trade receivables.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad customer base which is geographically dispersed. The Company does not have significant exposure to any individual customer. A number of factors are considered in determining the likelihood of impairment. Bad debt expense, net of recovery, for the three months ended March 31, 2014 was $28,433 (March 31, 2013 - $60,977 recovery).

The Company also has a contract with Export Development Canada ("EDC"), Canada's export credit agency, whereby some of its trade receivables are insured. EDC determines the coverage amount, if any, on a customer-by-customer basis. Based on the Company's trade receivables balance as at March 31, 2014, 58.3% (December 31, 2013 - 58.8 %) 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. As a result, the Company believes that its exposure to credit risk is limited.

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.

The carrying amount of financial assets represents the maximum credit exposure and therefore the credit risk at the reporting date was:

As at ($ thousands)	March 31, 2014	December 31, 2013
	$	$
Cash and cash equivalents	30,322	34,373
Trade and other receivables	17,789	17,166
	48,111	51,539

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements.

The Company has the following financial liabilities at the reporting dates:

As at March 31, 2014 ($ thousands)	Less than 1 year $	1 to 2 years $	2 to 5 years $	Greater than 5 years $	Total $
Trade accounts payable and accrued liabilities	11,593	-	-	-	11,593
Customer deposits	3,978	-	-	-	3,978
Long-term debt	2,449	2,551	2,632	-	7,632
Convertible notes	-	-	10,565	-	10,565
	18,020	2,551	13,197	-	33,768

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 the Company's financial liabilities are subject to interest charges at floating rates, and are exposed to fluctuations in interest rates. At March 31, 2014 term loans totalling $7.1 million (December 31, 2013 - $7.5 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 increase net loss and comprehensive loss by $8,878 for the three months ended March 31, 2014 (March 31, 2013 - $8,081). An equal decrease in rates would generate an equal amount of interest savings.

Foreign exchange risk

The Company's financial instruments are exposed to currency fluctuations as it purchases a portion of its inventory in foreign currencies. A significant weakening of the US dollar ("USD") against the Canadian dollar could result in a revaluation of inventory as a large portion of the inventory is purchased in USD. This risk is mitigated as the Company's business does not require high levels of inventory on hand. Quick turnover of inventory minimizes the effect of any such changes in exchange rates.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (Continued)

The Company's financial instruments are exposed to fluctuations in the USD. The table below details the Company's exposure to currency risk at the reporting dates and a sensitivity analysis to changes in currency. (A 2.5% change in foreign currency was used for obligations that would be retired in six months or less and a 10% change in foreign currency for obligations that would be retired in greater than six months.) The sensitivity analysis includes USD-denominated monetary items and adjusts their translation at period end for their respective change in the USD. For the respective weakening of the USD, there would be an equal and opposite impact on net loss and comprehensive loss.

($ in thousands, except for %)	Amount (USD) $	Change in currency %	Effect of net loss and comprehensive loss for the three months ended March 31, 2014 $
Cash	12,722	2.5	318
Trade and other receivables, net of deposits	10,612	2.5	265
Trade accounts payable and accrued liabilities	(5,101)	2.5	(128)
Current portion of debt (less than six months)	(207)	2.5	(5)
Long-term portion of debt (greater than six months)	(773)	10.0	(77)
	17,253		373

At March 31, 2014 and December 31, 2013, the Company held no USD forward foreign exchange contracts.

Commodity price risk

The Company consumes raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, paint and powder, and fabric and vinyl. Aluminum represents the largest component of the Company's raw materials consumption. Generally, the Company's aluminum inventory is low as it has a fast turnaround time for the majority of its projects. This is a low risk to DIRTT but aluminum prices can fluctuate and represents approximately 15% of its overall cost of goods sold.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 or liabilities. Level 1 financial instruments include cash and cash equivalents.
- Level 2 financial instruments are those which can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 financial instruments include trade and other receivables, notes receivable, trade accounts payable and accrued liabilities, customer deposits, current and long-term debt, and convertible notes.
- Level 3 financial instruments are those derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). The Company does not have any level 3 financial instruments.
- 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 the Company's financial instruments were determined as follows:

a) The carrying amounts of cash and cash equivalents; trade and other receivables; trade accounts payable and accrued liabilities; and customer deposits approximate fair value due to their short-term nature;

b) The carrying amount of notes receivable approximates fair value as they bear interest at a market rate, and have reasonable repayment terms;

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (Continued)

c) The Company's 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 the Company 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;

d) The fair values of the debt component of the convertible notes are determined using discounted cash flow analyses, whereby the contractual payments are discounted at a discount rate reflective of market rates for instruments held by the Company with similar terms and periods to maturity. The discount rate used in determining fair value was 12.1%. The carrying amount of these instruments approximates fair value.

15. COMMITMENTS

Operating leases

The Company rents facilities and capital assets under operating lease commitments with respect to certain premises, equipment and vehicles, and has continuing contractual commitments for operating expenses. During the three months ended March 31, 2014, the Company signed a five-year lease on a new manufacturing and storage facility located in Calgary, Alberta with monthly lease payments of approximately $35,000 commencing on August 1, 2014.

16. COMPARATIVE FIGURES

The Company disclosed cash flows from interest paid on convertible notes and long-term debt of $0.4 million and $31,000, respectively as financing activities for the three months ended March 31, 2013 to conform to current year's presentation.