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 November 6, 2014, and should be read in conjunction with the Company's condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Please refer to Note 2 of the consolidated financial statements for the 12 months ended December 31, 2013 for disclosure with respect to the Company's significant accounting policies. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as at and for the three and nine months ended September 30, 2014. The Company's reporting currency is the Canadian dollar. This MD&A should also be read in conjunction with the Company's annual information form for the 12 months ended December 31, 2013 (the "AIF") and other public filings available on SEDAR at www.sedar.com.

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.

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 2014 and beyond; project timetables; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; use of proceeds from the IPO (as defined 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.

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

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

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

Please refer to the AIF for a detailed discussion of the risk factors.

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.

The Forward-Looking Information contained in this MD&A is expressly qualified by the foregoing cautionary statement. See "Risk Factors".

MARKET AND INDUSTRY DATA

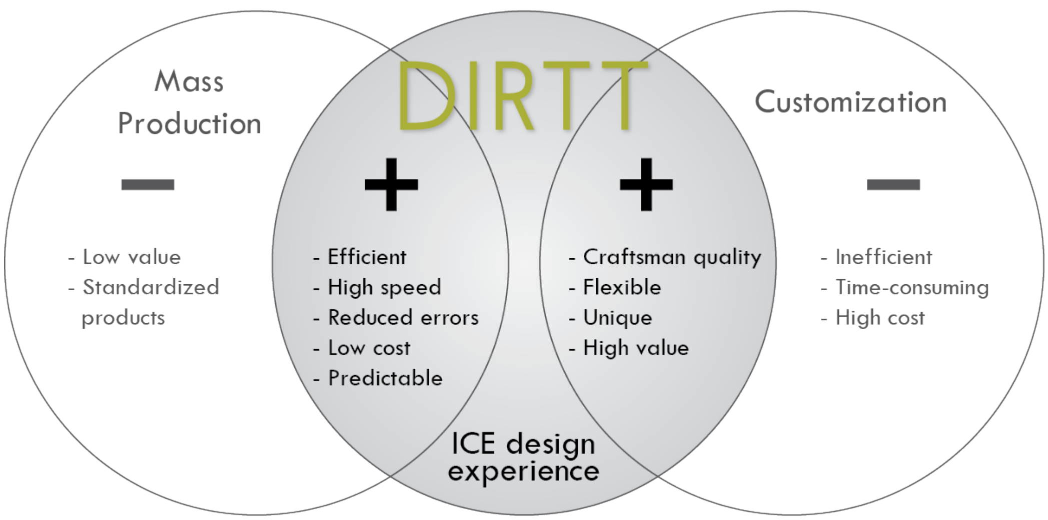
Certain market and industry data contained in this MD&A is based upon information from government or other third party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third party publications and reports do not guarantee 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. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. We have not independently verified any of the data from government or other third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources.

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 serving five continents. A DP is a third party who enters into a formal agreement to market and sell our solutions. DPs are required to invest in their own regional DIRTT team consisting of at least one DIRTT champion, 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 clients; and to purchase an ICE Software package. As of the date hereof, we had 100 DPs in 181 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 success.



DIRTT Solutions, including DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork and DIRTT Floors, 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

We are not dependent on any one client, DP, industry or minimum job size. Our clients range from small owner-managed businesses to large multinational Fortune 500 corporations in a diverse range of industries including, healthcare, education, financial services, government and military, manufacturing, non-profit, oil and gas, professional services, retail, and technology. As at September 30, 2014, we had in excess of 3,300 clients. For the nine months ended September 30, 2014, our average project size was approximately $78,000 (September 30, 2013 - $75,000), with the single largest project (on a per project order basis) being $1.1 million (September 30, 2013 - $1.0 million). The largest individual project completed in our company history was valued at US$19.4 million, which was completed in early 2013.

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.

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Canada	13,247	6,286	32,340	20,464
USA	33,404	30,422	97,044	85,129
	46,651	36,708	129,384	105,593

Included in the revenue amount reported from the US are projects for one of our US-based DPs whose healthcare-focused clients are located in the Middle East, as detailed below.

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Middle East	1,428	2,565	6,309	3,941

On November 28, 2013, we completed an initial public offering ("IPO") that resulted in the issuance of 15.0 million common shares ("Common Shares") for gross proceeds of $45.0 million, and began trading on the Toronto Stock Exchange ("TSX") under the symbol "DRT".

THIRD QUARTER 2014 HIGHLIGHTS

- Revenue increased by $9.9 million to $46.7 million or 27.1% over Q3 2013;
- Improvement in adjusted gross profit percentage (see "Non-IFRS Measures") by 2.9% from 39.4% to 42.3% over Q3 2013;
- Adjusted EBITDA (see "Non-IFRS Measures") increased by $3.7 million over Q3 2013 to $5.3 million;
- Converted the remaining balance of the 14% convertible notes issued in December 2012 ("December 2012 Notes") into 2,380,006 Common Shares;

YEAR TO DATE 2014 HIGHLIGHTS

In addition to the highlights reported in the third quarter of 2014, during the nine months ended September 30, 2014:

- Revenue increased by $23.8 million to $129.4 million or 22.5% over YTD 2013;
- Improvement in adjusted gross profit percentage by 2.3% from 39.9% to 42.2% over YTD 2013;
- Adjusted EBITDA increased by $4.7 million over YTD 2013 to $10.1 million;
- Completed a bought-deal secondary offering of approximately $18.6 million;
- Converted 50% or $5.5 million principal and accrued interest of the December 2012 Notes into 2,430,595 Common Shares;
- Announced notice of contract in excess of US$30.0 million to DIRTT and its DP to begin in Q4 2014;
- Signed five significant projects totalling more than $12.0 million, which were completed as of Q3 2014;
- Launched the Employee Share Purchase Plan ("ESPP") in May 2014; and

- Launched our new Enzo Approach to interior construction at our annual marketing and training event in Chicago in June 2014.

ANNUAL MARKETING INITIATIVE

DIRTT's largest marketing initiative occurs in Chicago every June, coinciding with NeoCon®, North America's largest design exposition and conference for commercial interiors. DIRTT transforms its company-owned GLC in Chicago to showcase its newest innovations and construction solutions to the architect and design community, prospects and clientele. This year, the Enzo Approach (the previously announced new approach to interior construction) was featured and received accolades from the thousands of people who came through the GLC. DIRTT's presence in Chicago also includes a comprehensive training and hosting component for its DPs and sales representatives.

DIRTT LAUNCHES EMPLOYEE SHARE PURCHASE PLAN

In May 2014, the Company officially launched the ESPP, which was previously approved by our Board of Directors (the "Board") on March 10, 2014, to encourage employee ownership of Common Shares and to align the interests of staff more closely with those of shareholders. The adoption of the ESPP complements our unique culture and allows employees to further participate in the long-term success of the Company. All employees are eligible to participate in the ESPP. Pursuant to the ESPP, employees will be able to purchase Common Shares up to an aggregate amount of 10% of their base salaries and DIRTT will contribute an additional 50% of each such employee-contributed amount towards further purchases. All Common Shares will be purchased through the facilities of the Toronto Stock Exchange and all Common Shares purchased through DIRTT contributions will be required to be held for a minimum of one year from the date of purchase. As of the date hereof, 19.3% of employees have enrolled in the ESPP at an average contribution rate of 6.6%.

SECONDARY OFFERING

In June 2014, we completed a secondary offering on a bought-deal basis, whereby a total of approximately 7.2 million Common Shares were sold by a group of selling shareholders to a syndicate of underwriters at an offering price of $2.60 per Common Share. DIRTT did not receive any proceeds from the secondary offering but incurred $0.5 million in transaction costs.

DIRTT ADOPTS SHAREHOLDER RIGHTS PLAN

On April 3, 2014, we announced that the Board approved the adoption of a shareholder rights plan. The shareholder rights plan was ratified by the shareholders of the Company at the annual and special meeting of shareholders held on May 13, 2014.

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three and nine months ended September 30, 2014 and 2013.

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands, except per share amounts)	$	$	$	$
Revenue	46,651	36,708	129,384	105,593
Gross profit	19,145	14,209	52,993	40,693
Gross profit %	41.0%	38.7%	41.0%	38.5%
Adjusted gross profit % (1)	42.3%	39.4%	42.2%	39.9%
Selling, general and administrative ("SG&A")	17,844	14,311	52,273	42,003
Adjusted SG&A (1)	14,963	12,736	45,200	37,048
Adjusted SG&A as a % of revenue (1)	32.1%	34.7%	34.9%	35.1%
Operating income (loss)	1,301	(102)	720	(1,310)
Finance costs	82	1,418	1,282	4,094
Adjusted EBITDA (1)	5,259	1,585	10,123	5,443
Income tax expense (recovery)	54	(741)	133	333
Net income (loss)	1,526	(494)	(599)	(6,344)
Net income (loss) per basic and diluted share:	0.02	(0.01)	(0.01)	(0.17)

Note:

(1) See "Non-IFRS Measures".

Revenue

Revenue increased by $9.9 million or 27.1% in the three months ended September 30, 2014 compared with the same period in 2013. Revenue increased by $23.8 million or 22.5% in the nine months ended September 30, 2014 compared with the same period in 2013. The increase in revenue was mainly due to a general improvement in business levels during 2014 compared with 2013.

Our growing presence in the Middle East is driven by one of DIRTT's US DPs, whose primary market is Saudi Arabia, and who brought in $1.4 million and $6.3 million of revenue for DIRTT from healthcare-related projects for the three and nine months ended September 30, 2014, respectively, (September 30, 2013 - $2.6 million and $3.9 million, respectively).

As a significant amount of our revenue is generated by the US market, we also benefitted from a stronger US dollar during the three and nine months ended September 30, 2014.

Included in the total revenue reported for the three months ended September 30, 2014, was the remaining 1/3 of the $12.0 million of significant projects announced in January 2014. These projects, for leading players in the energy, insurance and healthcare sectors, were completed as of the third quarter of 2014.

Adjusted Gross Profit

Adjusted gross profit as a percentage of revenue increased by 2.9% from 39.4% to 42.3% in the three months ended September 30, 2014 compared with the same period in 2013.

Increasing revenues contribute to manufacturing efficiencies. In addition, consistent manufacturing throughput throughout a quarter contributes to stronger gross profit, as this allows for more efficient operations over the period versus significant fluctuations in monthly manufacturing volumes.

Adjusted gross profit as a percentage of revenue increased by 2.3% from 39.9% to 42.2% in the nine months ended September 30, 2014 compared with the same period in 2013. The increase was due primarily to significantly better results in the first nine months of 2014 compared with the same period in 2013, leading to greater efficiencies driven by higher overall volumes in our production facilities. Higher production volumes enable better absorption of fixed costs included in cost of goods sold, such as facilities costs and indirect labor costs, particularly as the sales and production volumes, with the exception of April, were generally consistent throughout the first nine months of 2014. The stronger US dollar also contributed to higher adjusted gross profit in the three and nine months ended September 30, 2014 as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

Adjusted SG&A Expenses

Adjusted SG&A is SG&A less depreciation expense and stock-based compensation expense. See Non-IFRS Measures for a reconciliation. Adjusted SG&A expenses increased by $2.2 million or 17.5% in the three months ended September 30, 2014 compared with the same period in 2013. Adjusted SG&A as a percentage of revenue decreased by 2.6% from 34.7% to 32.1% in the three months ended September 30, 2014 compared with the same period in 2013. The most significant change can be attributed directly to sales-related efforts as salaries and benefits increased by $1.0 million and commission expense for our internal sales representatives and industry specific experts increased by $0.5 million. These costs reflect personnel additions focused on generating and supporting higher business volumes, and are consistent with the use of proceeds as outlined in our prospectus filed in respect of our IPO. Included in the $1.0 million increase in salaries and benefits is $0.3 million of accrued bonuses for senior management in accordance with the Board-approved 2014 bonus pool. Higher commission costs are in line with the higher revenue volumes in the current quarter. Other increases in adjusted SG&A in the current quarter included travel and marketing costs of $0.3 million, rent expense of $0.2 million and $0.2 million in other miscellaneous items. The stronger US dollar contributed to the overall increase in adjusted SG&A across the organization in the current quarter.

Adjusted SG&A expenses increased by $8.2 million or 22.0% in the nine months ended September 30, 2014 compared with the same period in 2013. Adjusted SG&A as a percentage of revenue decreased by 0.2% from 35.1% to 34.9% in the nine months ended September 30, 2014 compared with the same period in 2013. The increase was due to increases in salaries and benefits of $3.3 million, commission expense of $1.4 million, travel and marketing costs of $1.4 million, transaction costs from the secondary offering of $0.5 million, computer supplies of $0.5 million, rent expense of $0.3 million, insurance expense of $0.2 million, software licenses of $0.1 million and $0.5 million in other miscellaneous items. Included in the $3.3 million increase in salaries and benefits is $0.5 million in accrued bonuses for senior management in accordance with the Board-approved 2014 bonus pool. The increase in salaries and benefits and commission expense are due to the same reasons discussed above.

Adjusted EBITDA

Adjusted EBITDA increased by $3.7 million in the three months ended September 30, 2014 compared with the same period in 2013. The increase was mainly due to the $9.9 million increase in revenue, and the resulting improved adjusted gross profit percentage which grew from 39.4% to 42.3%. These amounts were partially offset by increased adjusted SG&A of $2.2 million for the reasons discussed above.

Adjusted EBITDA increased by $4.7 million in the nine months ended September 30, 2014 compared with the same period in 2013. The increase was mainly due to the $23.8 million increase in revenue, and the resulting improved adjusted gross profit percentage which grew from 39.9% to 42.2%. These amounts were partially offset by increased adjusted SG&A of $8.2 million for the reasons discussed above.

Finance Costs

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Accreted/ accrued interest (non-cash):				
Debt component of preferred shares	-	310	-	912
December 2012 Notes	17	584	657	1,577
June 2012 Notes	-	75	-	271
December 2012 Notes	-	412	413	1,241
Credit facilities	65	37	212	93
	82	1,418	1,282	4,094

Finance costs decreased by $1.3 million in the three months ended September 30, 2014 compared with the same period in 2013. Finance costs for the three months ended September 30, 2014 were comprised of $17,000 non-cash and $65,000 cash costs compared with $1.0 million and $0.4 million, respectively, for the same period in 2013. In November 2013, upon completion of our IPO, the Class A preferred shares and the convertible notes issued in June 2012 ("June 2012 Notes") were converted into Common Shares and as a result there were no accretion or accrued interest amounts reported during 2014 related to those items. Upon completion of the IPO, we also repaid US$10.0 million of the original US$20.0 million of December 2012 Notes. Under the terms of the note purchase agreement on the remaining principal portion of the December 2012 Notes, the interest rate increased from 8% to 14% (12% cash and 2% non-cash) effective March 7, 2014. 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 above. In June 2014, in connection with the secondary offering, US$5.0 million of the then-remaining US$10.0 million December 2012 Notes plus all accrued interest at the time of conversion were converted into Common Shares. In July 2014, we converted the remaining balance of the December 2012 Notes into Common Shares.

Finance costs decreased by $2.8 million in the nine months ended September 30, 2014 compared with the same period in 2013. Finance costs for the nine months ended September 30, 2014 were comprised of $0.7 million non-cash and $0.6 million cash costs compared with $2.8 million and $1.3 million, respectively, for the same period in 2013. The reasons for the decrease are the same as discussed above.

Income Tax Expense

Income tax expense for the three and nine months ended September 30, 2014 was $0.1 million and $0.1 million compared to $0.7 million recovery and $0.3 million expense, respectively, for the same periods in 2013, mainly reflecting the profitability of our US subsidiary during these periods. Included in the expense amounts in the three and nine months ended September 30, 2013 is a deferred income tax recovery of $0.8 million and $0.2 million, respectively, which arose from adjustments made to the deferred tax asset and liability balances to reflect the likely utilization of these balances on an entity by entity basis.

Summary of Quarterly Results

($ thousands, except per share amounts)	Sep. 30, 2014 $	Jun. 30, 2014 $	Mar. 31, 2014 $	Dec. 31, 2013 $	Sept. 30, 2013 $	Jun. 30, 2013 $	Mar. 31, 2013 $	Dec. 31, 2012 $
Revenue	46,651	42,218	40,515	34,202	36,708	38,494	30,391	34,661
Adjusted gross profit % [(1)]	42.3%	40.7%	43.5%	38.4%	39.4%	45.2%	33.7%	37.8%
Operating income (loss)	1,301	(1,579)	998	(2,958)	(102)	1,717	(2,925)	(763)
Net income (loss) attributable to common shareholders	1,526	(2,055)	(70)	(10,151)	(494)	(1,271)	(4,579)	(493)
Net income (loss) attributable to common shareholders per share:								
-basic and diluted	0.02	(0.03)	(0.00)	(0.25)	(0.01)	(0.04)	(0.13)	(0.01)

Note:

[(1)] See "Non-IFRS Measures".

Trends

DIRTT's business typically demonstrates some seasonality. DIRTT experienced higher than normal sales volume late in the fourth quarter of 2013, which is traditionally a slower period, which positively impacted revenue early in the first quarter of 2014.

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 with more variable manufacturing levels from month to month.

Changes in Financial Position

The following is a discussion of changes in the condensed consolidated statement of financial position as at September 30, 2014.

Financial position at ($ thousands)	September 30, 2014 $	December 31, 2013 $	Change ($)	Change (%)	Explanation of changes
Current assets					
Cash and cash equivalents	24,999	34,373	(9,374)	(27%)	See "Liquidity and Capital Resources"
Trade and other receivables	21,850	17,166	4,684	27%	Reflects higher revenue during Q3 2014
Inventory	11,240	11,376	(136)	(1%)	Not a significant change
Prepaids and other current assets	3,685	1,058	2,627	248%	Mainly due to deposits on new manufacturing equipment on order
Current liabilities					
Trade accounts payable and accrued liabilities	13,767	12,550	1,217	10%	Reflects higher manufacturing activity during Q3 2014
Customer deposits	4,490	8,370	(3,880)	(46%)	A large portion of orders on hand at the end of September did not require deposits
Current portion of long-term debt	2,456	2,419	37	2%	Not a significant change
Provisions	637	469	168	36%	Reflects general increase in warranty accruals
Current tax liabilities	693	314	379	121%	Reflects taxable position in our US subsidiary
Working capital					
(Current assets subtracting Current liabilities)	39,731	39,851	(120)	(0%)	

Financial position at ($ thousands)	September 30, 2014 $	December 31, 2013 $	Change ($)	Change (%)	Explanation of changes
Non-current assets					
Long-term deposits	605	522	83	16%	Reflects rent deposit on the new facility in Calgary and strengthening of the US dollar
Property, plant and equipment	32,016	29,986	2,030	7%	Reflects net additions of $6.6 million (mostly GLCs, manufacturing equipment and US manufacturing facility improvements) and foreign exchange adjustment of $0.8 million, partially offset by depreciation expense of $5.4 million
Intangible assets	11,733	10,112	1,621	16%	Reflects additions of $4.1 million (mostly capitalized salaries and benefits related to software and product development) and partially offset by amortization expense of $2.5 million
Notes receivable	470	486	(16)	(3%)	Reflects scheduled repayments during the first nine months of 2014
Deferred tax assets	2,308	1,967	341	17%	Reflects period to period changes in temporary differences
Goodwill	1,845	1,845	-	-	No change
Non-current liabilities					
Deferred tax liabilities	375	592	(217)	(37%)	General movement in temporary differences
Long-term debt	3,998	5,673	(1,675)	(30%)	Reflects repayments which began on January 1, 2014
December 2012 Notes	-	9,904	(9,904)	(100%)	Reflects conversion of $10.4 million into common shares, offset by accretion expense of $0.5 million
Shareholders' equity					
Common share capital	138,989	123,127	15,862	13%	Reflects conversion of all of the December 2012 Notes, stock option exercises, and warrant exercises during the first nine months of 2014
Warrants	626	1,101	(475)	(43%)	Reflects warrant exercises during Q3 2014
Equity component of December 2012 Notes	-	57	(57)	(100%)	Reflects conversion of all of the December 2012 Notes during the first nine months of 2014
Contributed surplus	5,810	6,192	(382)	(6%)	Primarily option exercises during the first nine months of 2014 partially offset by stock-based compensation expense
Accumulated other comprehensive income	2,679	1,293	1,386	107%	Reflects the strengthening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(63,769)	(63,170)	(599)	1%	Net loss in the first nine months of 2014

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Condensed consolidated statements of cash flows

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Cash flows provided by operating activities before changes in non-cash working capital (1)	5,882	1,369	10,179	5,699
Changes in non-cash working capital	(5,208)	(5,072)	(9,753)	(6,355)
Net cash flows provided by (used in) operating activities	674	(3,703)	426	(656)
Less:				
Net cash flows used in investing activities	(3,891)	(1,376)	(10,635)	(5,520)
Net cash flows provided by (used in) financing activities	1,852	(496)	835	1,221
Decrease in cash and cash equivalents	(1,365)	(5,575)	(9,374)	(4,955)
Cash and cash equivalents, beginning of period	26,364	9,446	34,373	8,826
Cash and cash equivalents, end of period	24,999	3,871	24,999	3,871

Note:

(1) See "Non-IFRS Measures".

At September 30, 2014, we had $25.0 million in cash and cash equivalents compared with $34.4 million at December 31, 2013. At September 30, 2014, we had an undrawn US$18.0 million revolving operating facility.

We believe with our current cash on hand, available credit facilities, and cash flow from operations there will be sufficient liquidity to meet our working capital requirements as well as our financial obligations. In addition, we usually receive a 50% deposit on orders which also provides additional up-front working capital. We do not require deposits on US government orders or 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 (used in) operating activities

Net cash flows provided by operating activities increased by $4.4 million for the three months ended September 30, 2014 compared with the same period in 2013. The growth was mainly due to an increase in operating income of $1.4 million as a result of higher adjusted gross profit during the three months ended September 30, 2014.

Net cash flows provided by operating activities increased by $1.1 million for the nine months ended September 30, 2014 compared with the same period in 2013. The increase was mainly due to an increase in operating income of $2.0 million as a result of higher adjusted gross profit during the nine months ended September 30, 2014.

Net cash flows used in investing activities

Net cash flows used in investing activities for the three months ended September 30, 2014 increased by $2.5 million compared with the same period in 2013. Net cash flows used in investing activities for the nine months ended September 30, 2014 increased by $5.1 million compared with the same period in 2013. The majority of the increase relates to investment in new manufacturing equipment and our company-owned GLCs. In addition, we are also investing in the first phase of leasehold improvements to our manufacturing facility in Savannah, Georgia designed to improve its functionality in the sales and marketing process. We also continue to invest in product and software development and our ongoing commitment to further enhance and expand our solutions such as the Enzo Approach, our recently released offering.

Net cash flows (used in) provided by financing activities

Net cash flows provided by financing activities for the three months ended September 30, 2014 increased by $2.3 million compared with the same period in 2013. The majority of the increase came from the exercise of stock options and warrants for proceeds of $2.5 million during the third quarter of 2014. Net cash flows provided by financing activities for the nine months ended September 30, 2014 decreased by $0.4 million compared with the same period in 2013. The majority of the decrease during the nine months ended September 30, 2014 was related to an additional draw of $3.2 million of long-term debt during 2013 that did not occur during the current period, the commencement of certain debt repayments in January 2014, partially offset by the exercise of stock options and warrants of $3.3 million.

Non-IFRS Measures

Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A as a percentage of revenue, EBITDA, Adjusted EBITDA, and cash provided by operating activities before changes in non-cash working capital are non-IFRS measures used by management to assess our performance and financial condition. Consequently, they do not have a standard meaning as prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented and calculated by other companies. We believe that the non-IFRS measures are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by DIRTT's business. The non-IFRS measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements.

Adjusted gross profit and adjusted gross profit %

Adjusted gross profit is defined 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 measure as an indicator of cash generated from the production of goods and services that we sell. As manufacturing volumes and revenue rises, production synergies permit greater improvements in gross profit.

The following table reconciles gross profit and adjusted gross profit to the condensed consolidated statements of income (loss) and comprehensive income (loss).

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Revenue	46,651	36,708	129,384	105,593
Cost of goods sold	27,506	22,499	76,391	64,900
Gross profit	19,145	14,209	52,993	40,693
Gross profit %	41.0%	38.7%	41.0%	38.5%
Add back:				
Depreciation included in cost of goods sold	595	245	1,570	1,416
Adjusted gross profit	19,740	14,454	54,563	42,109
Adjusted gross profit %	42.3%	39.4%	42.2%	39.9%

Adjusted SG&A and adjusted SG&A as a percentage of revenue

Adjusted SG&A is SG&A before the inclusion of depreciation and amortization of non-manufacturing related assets and stock-based compensation expense. Adjusted SG&A as a percentage of revenue is calculated as adjusted SG&A divided by revenue. We use this measure to assess the scalability of our operations.

The following table reconciles SG&A and adjusted SG&A to the condensed consolidated statements of income (loss) and comprehensive income (loss).

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Revenue	46,651	36,708	129,384	105,593
SG&A, as reported	17,844	14,311	52,273	42,003
Less: Depreciation included in SG&A	(2,214)	(1,506)	(6,303)	(4,614)
Less: Stock-based compensation expense included in SG&A	(667)	(69)	(770)	(341)
Adjusted SG&A	14,963	12,736	45,200	37,048
Adjusted SG&A as a % of revenue	32.1%	34.7%	34.9%	35.1%

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; and any other non-recurring gains or losses. 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 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 condensed consolidated statements of income (loss) and comprehensive income (loss).

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Net income (loss) for the period	1,526	(494)	(599)	(6,344)
Add back (deduct):				
Finance costs	82	1,418	1,282	4,094
Interest income	(54)	3	(181)	(3)
Income tax expense (recovery)	54	(741)	133	333
Depreciation included in cost of goods sold	595	245	1,570	1,416
Depreciation and amortization included in SG&A	2,214	1,506	6,303	4,614
EBITDA	4,417	1,937	8,508	4,110
Stock-based compensation	667	69	770	341
Non-cash loss on derecognition of liability	154	-	307	-
Gain on sale of property, plant and equipment	(2)	-	(20)	-
Write-off of property, plant and equipment	-	(25)	-	192
Secondary offering transaction costs	(3)	-	508	-
Non-cash foreign exchange loss (gain) on debt revaluation	26	(396)	50	800
Adjusted EBITDA	5,259	1,585	10,123	5,443

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 (used in) operating activities" as presented on the condensed consolidated statements of cash flows.

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

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
($ thousands)	$	$	$	$
Net cash flows provided by (used in) operating activities	674	(3,703)	426	(656)
Changes in non-cash working capital	5,208	5,072	9,753	6,355
Net cash flows provided by operating activities before changes in non-cash working capital	5,882	1,369	10,179	5,699

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, to date, issuance of equity has been our primary source of capital. The IPO provided us with net proceeds of $39.8 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.

We are in compliance with all of our lending institutions' debt covenants at each of the respective reporting periods as set out below:

At September 30, 2014	
Minimum Tangible Net Worth	44,000,000

In July 2014, we converted all of the remaining December 2012 Notes into Common Shares and as a result, the related covenants were eliminated as at September 30, 2014.

At 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

Note:

(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.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2014, we entered into a five-year lease agreement for a new manufacturing and storage facility in Calgary, Alberta with monthly lease payments of approximately $35,000 commencing on August 1, 2014. We also entered into two additional smaller lease agreements for new GLCs in Toronto, Canada and London, England.

OUTSTANDING SHARE DATA

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

As at	November 6, 2014	September 30, 2014
Common shares	75,525,280	75,395,348
Stock options [(1)]	5,617,677	5,773,477
Convertible note warrants [(1)]	748,941	748,941
Broker warrants - Series A [(1)]	313,450	313,450
Broker warrants - Series B [(1)]	130,500	130,500
Other warrants [(1)]	100,000	100,000
Total	82,435,848	82,461,716

Note:

(1) Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At September 30, 2014, notes receivable of $0.5 million (December 31, 2013 - $0.5 million) remain outstanding from Mogens Smed (“Mr. Smed”), a shareholder, officer and a director of DIRTT. The notes receivable bear interest at 5% with monthly payments of $3,750, including interest, commencing in August 2013, and are secured by a pledge of 250,000 Common Shares held by Mr. Smed. The notes receivable were 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, and evidenced by the convertible debentures, was used by us to meet certain financial obligations.

During the three and nine months ended September 30, 2014, the Company recorded revenue of $0.9 million and $3.9 million, respectively (September 30, 2013 - $0.8 million and $1.9 million, respectively) from a DP which is owned by a director of the Company. At September 30, 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 September 30, 2014, the outstanding balance in customer deposits received was $nil (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.

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 for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad customer base which is geographically dispersed. 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 September 30, 2014, 45.0% (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, 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 September 30, 2014 and December 31, 2013. We monitor our cash balances and cash flows generated from operations to meet our requirements. Our financial liabilities include trade accounts payable and accrued liabilities, customer deposits, and long-term debt. The ability to pay our obligations relies on the collection of 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 September 30, 2014, term loans totalling $6.0 million (December 31, 2013 - $7.5 million) are subject to floating interest rates. An increase (decrease) in overall interest rates by 0.5% would increase (decrease) interest expense related to these items and increase (decrease) net income (loss) and comprehensive income (loss) by $7,530 and $22,590 for the three and nine months ended September 30, 2014, respectively (September 30, 2013 - $6,070 and $18,209, respectively).

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 accrued liabilities, and customer deposits are denominated in the US dollar. 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. A significant weakening of the US dollar against the Canadian dollar could result in a revaluation of inventory. This risk is mitigated due to 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. As at September 30, 2014 and December 31, 2013, we held no US dollar forward foreign exchange contracts. We purchase a large portion of our inventory in US dollars. For the nine months ended September 30, 2014, with a 2.5% change in the US dollar (for obligations that would be retired in six months or less) and a 10% change in the US dollar (for obligations that would be retired in greater than six months), the impact to the net income (loss) and comprehensive income (loss) would be a decrease/increase of $0.1 million (September 30, 2013 - $1.8 million).

Commodity price risk

In our business, we consume raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, 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 20% 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.

- 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). 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 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). 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 our financial instruments were determined as follows:
  (i) 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;
  (ii) The carrying amount of notes receivable approximates fair value as they bear interest at a market rate, and have reasonable repayment terms;
  (iii) 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;
  (iv) 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 us with similar terms and periods to maturity. The carrying amounts of these instruments approximates fair value.

RISK FACTORS

Please refer to the AIF for a discussion of those distinctive or special characteristics of our operations and industry that may have a material impact on, or constitute risk factors in respect of, our operations and future financial performance.

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$900 billion in 2013, of which US$562 billion was attributable to non-residential building [*Source: US Census Bureau*]. This includes both new building and renovation projects. Total US non-residential construction spending is forecasted to grow to US$714 billion in 2017 *[Source: FMI US Markets Construction Overview 2014]*. We believe conventional construction activities are fraught with challenges including cost overruns, quality issues 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 increasing roster of repeat clients is a strong testament to the benefits of technology-enabled prefabricated solutions.

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) continuing to invest in ICE and new innovative interior construction solutions; (3) capitalizing on recent and continued investment in new industry verticals such as healthcare; (4) capitalizing on recent and continued investment alongside new international DPs such as the Middle East; and (5) penetrating new industries such as the hospitality and residential sectors.

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 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. The most recent September billing and inquiries numbers continued to show growth, building on an improving trend following poor weather in the first quarter of the year. Billing activity also continued to grow across all four reported regions and was especially strong in the South, Midwest and West. Both we and the AIA believe these numbers point to improved fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

In June 2014, DIRTT received notice of award for a project valued in excess of US$30.0 million to DIRTT and its DP Agile OFIS of Houston, Texas, which is scheduled to commence during the fourth quarter of 2014 and is expected to be substantially completed in 2015.

USE OF PROCEEDS

We received net proceeds of $39.8 million from the IPO completed in November 2013. The following table compares the intended use of the net proceeds with the actual expenditures as at September 30, 2014, by which time the net proceeds from the IPO were partially expended.

(in thousands)	Estimated per Prospectus	Actual spending up to September 30, 2014	Future estimated spending
Product development	$ 7,960	$ 2,880	$ 5,080
New sales and business development initiatives	3,980	3,764	216
ICE software development	2,388	3,075	-
Pre-payment of US$10.0 million December 2012 Notes	14,300	14,300	-
	28,628	24,019	5,296
Working capital purposes - including temporary investments	11,172	15,781	(5,296)
Total (Estimated/Actual)	$ 39,800	$ 39,800	$ -

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.

As at September 30, 2014, pending the use of the remaining proceeds, we held $22.5 million in short-term interest-bearing deposits at a Canadian financial institution.

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.

There have been no significant changes in our critical accounting estimates since December 31, 2013.

ADOPTION OF NEW AND REVISED IFRS

We have reviewed the impact of the following new and revised accounting pronouncements and have determined these standards did not have a material impact upon adoption on January 1, 2014.

International Accounting Standards (“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”.

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 of 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.

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.

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.

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, 2017 with early adoption permitted under IFRS. The Company is currently assessing the impact of this standard.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management 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. Based on a review of the Company’s internal control procedures, management believes its internal controls and procedures are appropriately designed as at September 30, 2014.

No significant changes in the Company’s internal control over financial reporting occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

DISCLOSURE CONTROLS

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 Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company’s disclosure controls and procedures as at September 30, 2014 and have concluded that it is appropriate.