DIRTT Environmental Solutions Ltd.

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

INDEX

Management's responsibility for financial reporting 3

Independent Auditor's report 4

Consolidated Financial Statements

Consolidated Statements of Financial Position 5

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) 6

Consolidated Statements of Changes in Equity 7

Consolidated Statements of Cash Flows 8

Notes to the Consolidated Financial Statements 9

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of DIRTT Environmental Solutions Ltd. have been prepared by, and are the responsibility of, the Company's management.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgments based on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results and operations of the Company within reasonable limits of materiality.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that the Company's assets are safeguarded, liabilities are recognized and that financial information is relevant and reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors, comprised of independent directors, meets periodically with the Company's management and external auditors to discuss the results of the audits and to review the consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the Company's systems of internal control, and approves the scope of the external auditors' audit and non-audit work.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Accountants and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

March 4, 2015

/s/ Mogens Smed	*/s/ Scott Jenkins*
Mogens Smed	Scott Jenkins
Chief Executive Officer	President and Interim Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIRTT Environmental Solutions Ltd:

We have audited the accompanying consolidated financial statements of DIRTT Environmental Solutions Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DIRTT Environmental Solutions Ltd. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP
Chartered Accountants
March 4, 2015
Calgary, Alberta

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

As at December 31		2014	2013
	Notes	$	$
ASSETS			
Current Assets			
Cash and cash equivalents		39,836	34,373
Trade and other receivables	6	28,425	17,166
Inventory	7	15,097	11,376
Prepaids and other current assets		1,853	1,058
		85,211	**63,973**
Non-current Assets			
Long-term deposits		624	522
Property, plant and equipment	8	35,661	29,986
Intangible assets	9	11,523	10,112
Notes receivable	24	465	486
Deferred tax assets	14	2,099	1,967
Goodwill		1,845	1,845
Total Assets		**137,428**	**108,891**
LIABILITIES			
Current Liabilities			
Trade accounts payable and accrued liabilities	10	22,933	12,550
Customer deposits		7,271	8,370
Current portion of long-term debt	11	3,516	2,419
Provisions	12	814	469
Current tax liabilities	14	243	314
		34,777	**24,122**
Non-current Liabilities			
Deferred tax liabilities	14	518	592
Long-term debt	11	6,336	5,673
Convertible notes	13	-	9,904
Total Liabilities		**41,631**	**40,291**
SHAREHOLDERS' EQUITY			
Common share capital	15	143,386	123,127
Warrants	15	526	1,101
Equity component of convertible notes	13	-	57
Contributed surplus		5,440	6,192
Accumulated other comprehensive income		3,661	1,293
Accumulated deficit		(57,216)	(63,170)
		95,797	**68,600**
Total Liabilities and Shareholders' Equity		**137,428**	**108,891**
Commitments and contingencies	27		

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

Approved by the Directors:

[/s/ Steve Parry]
Director

[/s/ Larry Fairholm]
Director

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

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

		For the year ended December	
		2014	2013
	Notes	$	$
Revenue	17	187,329	139,795
Cost of goods sold	18	109,286	86,499
Gross profit		**78,043**	**53,296**
Expenses			
Selling, general and administrative	19	70,235	56,727
IPO and secondary offering transaction costs		508	836
		70,743	**57,563**
Operating income (loss)		**7,300**	**(4,267)**
Other expenses (income)			
Foreign exchange (gain) loss		(649)	1,148
Gain on sale of property, plant and equipment		(17)	-
Debt settlement expense	13	-	3,728
Loss on derecognition of liability	13	307	832
Interest income		(291)	(10)
Finance costs	20	1,359	5,234
		709	**10,932**
Income (loss) before tax		**6,591**	**(15,199)**
Income taxes			
Current tax expense	14	662	455
Deferred tax (recovery) expense	14	(25)	841
		637	**1,296**
Net income (loss) for the year		**5,954**	**(16,495)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax of $nil (2013 - $nil)		2,368	1,611
Comprehensive income (loss) for the year		**8,322**	**(14,884)**
Income (loss) per share			
Basic	21	0.08	(0.42)
Diluted	21	0.08	(0.42)
Weighted average number of shares outstanding			
Basic	21	72,151,809	39,230,344
Diluted	21	74,042,768	39,230,344

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

Consolidated Statements of Changes in Equity

(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 year	-	-	-	-	-	-	(16,495)	(16,495)
Other comprehensive income for the year, net of tax	-	-	-	-	-	1,611	-	1,611
Stock-based compensation	-	-	-	-	395	-	-	395
Issued on exercise of stock options	26	-	-	-	(7)	-	-	19
Issued upon completion of IPO	45,000	-	-	-	-	-	-	45,000
Share capital issuance costs	(4,448)	-	-	-	-	-	-	(4,448)
Issued on conversion of preferred shares	23,969	(8,604)	-	-	-	-	-	15,365
Issued on conversion of convertible notes - June	4,312	-	-	(3,890)	-	-	-	422
Partial repayment of convertible notes - December	-	-	-	(56)	56	-	-	-
As at December 31, 2013	**123,127**	**-**	**1,101**	**57**	**6,192**	**1,293**	**(63,170)**	**68,600**
Net income for the year	-	-	-	-	-	-	5,954	5,954
Other comprehensive income for the year, net of tax	-	-	-	-	-	2,368	-	2,368
Stock-based compensation	-	-	-	-	1,398	-	-	1,398
Issued on exercise of stock options	7,875	-	-	-	(2,150)	-	-	5,725
Issued on conversion of convertible notes - December	10,946	-	-	(57)	-	-	-	10,889
Issued on exercise of warrants	1,438	-	(575)	-	-	-	-	863
As at December 31, 2014	**143,386**	**-**	**526**	**-**	**5,440**	**3,661**	**(57,216)**	**95,797**

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

Consolidated Statements of Cash Flows

(Stated in thousands of Canadian dollars)

		For the year ended December	
		2014	2013
	Notes	$	$
Cash flows from operating activities:			
Net income (loss) for the year		5,954	(16,495)
Items not affecting cash:			
Depreciation included in cost of goods sold		2,236	1,936
Depreciation and amortization included in selling, general and administrative		7,650	6,322
Stock-based compensation		1,398	395
Loss on derecognition of liability	13	307	832
Write-off of property, plant and equipment		-	192
Gain on sale of property, plant and equipment		(17)	-
Income tax provision	14	637	1,296
Finance cost	20	1,359	5,234
Non-cash foreign exchange loss on debt revaluation		175	1,259
Non-cash foreign exchange loss		1,122	452
Net change in non-cash working capital relating to operating activities	22	(6,248)	(2,028)
Cash taxes paid		(784)	(381)
Net cash flows provided by (used in) operating activities		**13,789**	**(986)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(10,812)	(3,066)
Capital expenditures on internally generated intangible assets		(4,798)	(3,953)
Proceeds from sale of property, plant and equipment		40	9
Receipt of proceeds from notes receivable		21	8
Net cash flows used in investing activities		**(15,549)**	**(7,002)**
Cash flows from financing activities:			
Issuance of share capital on IPO		-	45,000
Share capital issuance costs		-	(4,448)
Issuance of share capital on exercise of stock options		5,725	18
Issuance of share capital on exercise of warrants		863	-
Repayment of convertible notes	13	-	(10,451)
Interest paid on convertible notes	20	(413)	(1,592)
Proceeds of long-term debt		3,785	5,891
Repayment of long-term debt		(2,448)	(739)
Interest paid on long-term debt	20	(289)	(144)
Net cash flows provided by financing activities		**7,223**	**33,535**
Net increase in cash and cash equivalents		5,463	25,547
Cash and cash equivalents, beginning of year		34,373	8,826
Cash and cash equivalents, end of year		**39,836**	**34,373**
Cash and cash equivalents consists of:			
Cash		14,009	4,372
Short-term investments		25,827	30,001
		39,836	**34,373**

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

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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. 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 licensed to unrelated companies and DPs 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 consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Statement of compliance

These consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 4, 2015.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is DIRTT's presentation currency. The functional currency of the Canadian subsidiaries is the Canadian dollar and the functional currency of the United States subsidiaries is the United States dollar ("US").

Basis of consolidation

The consolidated financial statements include the accounts of DIRTT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the functional and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as DIRTT, using consistent accounting policies. All intra-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents include cash on hand held at banks and short-term investments, which are defined as highly liquid investments with original maturities of three months or less.

Inventory

Inventory is comprised of raw materials and work in progress. Inventory is valued at the lower of cost and net realizable value, with cost being defined to include laid-down cost for materials on a weighted average basis. Net realizable value is based on an item's usability in the manufacture of the Company's products. Work in progress is valued at an estimate of cost, based on stage of completion.

Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the balance of the liability. Finance charges are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Other leases that qualify as operating leases are not recognized in the Company's consolidated statement of financial position. Operating lease payments are recognized as an expense on a straight line basis over the lease term in the consolidated statement of income (loss) and comprehensive income (loss).

Property, plant and equipment

Tangible assets are recorded at cost less accumulated depreciation and/or accumulated impairment losses if any. Repair and maintenance costs are recognized in the consolidated statement of income (loss) and comprehensive income (loss) as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

Computer equipment	36 months
Computer software	12 months
Leasehold improvements	Over term of lease (12 months to 105 months)
Manufacturing equipment	120 months
Office equipment	60 months
Tooling and prototypes	48 months
Building	300 months
Vehicles	36 months

Depreciation is not recorded until such time as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is recognized in a manner that reflects the pattern in which the actual economic benefits are expected to be consumed and realized by the Company.

Residual values, useful lives and methods of depreciation are reviewed at each financial reporting period and adjusted prospectively, if appropriate.

Gains or losses arising from derecognition of an item of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the asset is derecognized. An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected to arise from the continued use of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets represent patents, trademarks and product and software development costs. These costs are capitalized up to the point of product and software commercialization. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Internally generated intangible assets arising from development are recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditures arising on research activities are expensed in the period in which they are incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial period end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the asset is derecognized. An intangible asset is derecognized upon disposal or when no further economic benefits are expected to arise from the continued use of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, or whenever there is an indication that the asset may be impaired. The Company does not have any intangible assets with indefinite lives.

Amortization is calculated on a straight line basis over the economic useful life of finite intangible assets as follows:

Patents and trademarks	120 months
Product and software development	60 months
Other intangibles	120 months

Impairment of non-financial assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets excluding goodwill (Continued)

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Warranties

Provisions for the expected cost of warranty obligations are recognized based on historical costs as a percentage of revenue and is recognized in cost of goods sold.

Rebates

Rebates on eligible projects are recognized at the date of the sale to the customer.

Contingent liabilities

Contingent liabilities are measured at management's best estimate of the expenditures required to settle the contingent liability at the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to the CGU, or group of CGUs, that are expected to benefit from synergies of the business combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Impairment of Goodwill

This requires an estimation of the value-in-use of the groups of CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts for the CGUs have been determined based on value-in-use calculations, using discounted cash flow projections. Management has adopted a five-year projection period to assess each CGU's value-in-use. The short-term cash flow projections are based on financial budgets approved by the Board of Directors. Longer-term cash flow projections are based on estimated rates of growth of revenues and costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

Income tax expense (recovery) comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent it relates to items recognized directly in equity.

Current income tax

Current income tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred income tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (Continued)

Deferred income tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales income taxes and duty.

Sale of goods

The Company recognizes revenue when the product is shipped from the factory and when all of the following conditions are met:

- it is probable that the economic benefits will flow to the Company;
- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the amount of revenue can be reliably measured;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of Services

The Company's wholly owned subsidiary, ICE Edge, derives revenue from licences, maintenance and other service fees. Ice Edge recognizes licence revenue when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales or income taxes or duty. Revenue from maintenance and other recurring services is recognized over the term of the agreement. If it is not considered probable that the revenue is collectible, then it is only recognized when the fee is collected. Revenue from professional services is recognized when the services are provided.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. The exercise price is based on the weighted average price of the common shares on the TSX for the five trading days prior to the date of grant. Prior to November 28, 2013, the exercise price was determined based on management's best estimate of fair value. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The Company has no cash-settled share-based payments.

Borrowing costs

Borrowing costs comprise interest expense on borrowings and are recognized in profit or loss using the effective interest method.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

The Company's functional and presentation currency is Canadian dollars. In the accounts of individual Canadian subsidiaries included in the consolidated financial statements, transactions in currencies other than the functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At period end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated statement of income (loss) and comprehensive income (loss).

The assets and liabilities on the consolidated statements of financial position of foreign subsidiaries are translated into Canadian dollars at the rates of exchange prevailing at the period end date. The consolidated statements of income (loss) and comprehensive income (loss) of foreign subsidiaries are translated at average exchange rates for the reporting period. Exchange differences arising on the translation of net assets are taken to accumulated other comprehensive income (loss).

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"); "held to maturity" investments; "available for sale" ("AFS") financial assets; and "loans and receivables." The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial assets are recognized and derecognized on a trade date basis where the purchase or sale of the financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned. Financial assets are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Disclosure of the accounting policy is limited to categories relevant to the Company.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss ("FVTPL")

FVTPL are financial assets held for trading or financial assets designated as such by management on initial recognition. Such assets are held for trading if they are acquired principally for the purpose of selling in the short term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in net income (loss) on the consolidated statement of income (loss) and comprehensive income (loss). Transaction costs are expensed. The Company has no financial instruments designated as FVTPL.

Loans and receivables

Loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents, trade and other receivables and notes receivable. Loans and trade receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in the consolidated statement of income (loss) and comprehensive income (loss). If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Derecognition of financial assets

The Company derecognizes a financial asset when the contractual right to receive cash flows from the asset expires, or when it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in accumulated other comprehensive income (loss) is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities."

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include trade accounts payable and accrued liabilities, customer deposits, long-term debt, and convertible notes.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Compound financial instruments

The compound part of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to share capital. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized is transferred to contributed surplus. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition of financial liabilities
The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Accumulated other comprehensive income (loss)
Other comprehensive income (loss) includes foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries into Canadian dollars.

Earnings (loss) per share ("EPS")

Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of common shares bought back or issued during the year, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the profit or loss attributable to equity holders of the Company and number of common shares for the effects of dilutive options and the conversion of convertible notes into potential common shares. The Company uses the treasury stock method of calculating diluted earnings per common share. Under this method, the exercise of stock options and convertible notes is assumed to have occurred at the beginning of a period and the related common shares are assumed issued at that time. The proceeds from exercise are assumed to have purchased common shares of the Company for cancellation at the average value price during the year. The incremental common shares (the difference between the number of common shares assumed issued and the number of common shares assumed purchased) are included in the denominator of the diluted earnings per common share calculation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings (loss) per share (“EPS”) (Continued)

The effects of anti-dilutive potential common shares are ignored in calculating diluted EPS. All options and other potential common shares are considered anti-dilutive when the Company is in a loss position.

Scientific research and experimental development

The Company is entitled to investment tax credits (“ITCs”) based on certain scientific research and experimental development (“SR&ED”) costs incurred. These credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. ITCs are subject to assessment and approval by Canada Revenue Agency. Adjustments required, if any, are reflected in the year when such assessments are received.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make 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 revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Cash Generating Units

A CGU is the smallest identifiable group of assets that generate cash flows that are independent of cash flows from other assets or groups of assets. The determination of CGUs requires judgment from management with regards to the shared infrastructure, geographical location, exposure to market risks and materiality.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Impairment of non-financial assets

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

The calculation of value-in-use for the Company's CGUs is most sensitive to the following assumptions:

- Earnings Before Finance Costs and Taxes: management has made estimates relating to the amount and timing of revenue growth. For each 1% change in earnings before finance costs and taxes, the value-in-use of the Company's CGUs would be impacted by $4.7 million; and
- Discount Rate: management has used a discount rate of 11.5% per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, Company's cost of debt, and the tax rate in the local jurisdiction. An increase in the discount rate to 12.5% would reduce the value-in-use of the Company's CGUs by $14.4 million. A decrease in the discount rate to 10.5% would increase the value-in-use of the Company's CGUs by $18.1 million.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Share-based transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the share option. (See Note 16).

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. (See Note 14).

Useful lives of property, plant and equipment and intangible assets

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segment and has been identified as the Company's CEO. The Company has identified one operating segment.

Allowance for doubtful accounts

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of its trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables. (See Note 6).

Distribution Partner rebates

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

Warranties

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Fair value estimates of financial liabilities and allocation between debt and equity

The determination of the fair value of the liability component of the convertible notes requires management to make estimates regarding the interest rate that the Company would have obtained for a similar secured loan. Management takes into consideration historical data regarding issuances of warrants and the proceeds received upon issuance of the convertible debt to determine the inputs used in the valuation models and the resulting fair value for each instrument. (See Note 26). The allocation between debt and equity for the convertible notes was determined based on the results of the fair value analysis above and management's best estimate of the likelihood of conversion of these financial instruments.

4. 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.

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process, "Annual Improvements to IFRS (2010-2012) and (2011-2013)". The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case the related consequential amendments to other IFRSs would also apply.

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.

4. 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 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. 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.

5. 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 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.

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

6. TRADE AND OTHER RECEIVABLES

As at December 31,	2014	2013
	($ thousands)	
Trade receivables	24,427	13,846
Other receivables	4,734	3,941
	29,161	17,787
Allowance for doubtful accounts	(736)	(621)
	28,425	17,166

Trade receivables are non-interest bearing and are generally on 30-90 day terms. Other receivables are comprised primarily of revenue earned but not invoiced.

The aging analysis of trade and other receivables is as follows:

	Total	Current	31-60 days	61-90 days	Greater than 90 days
			($ thousands)		
As at December 31, 2014	28,425	16,981	7,093	2,901	1,450
As at December 31, 2013	17,166	10,099	3,548	1,611	1,908

Reconciliation of allowance for doubtful accounts is as follows:

As at December 31,	2014	2013
	($ thousands)	
Opening balance	621	162
Provided for during the period	111	668
Recovery	(42)	(150)
Written off during the period	-	(68)
Foreign exchange revaluation	46	9
Closing balance	736	621

7. INVENTORY

As at December 31,	2014	2013
	($ thousands)	
Raw material	14,142	9,894
Allowance for obsolescence	(295)	(336)
Work in progress	1,250	1,818
	15,097	11,376

Cost of sales for the year ended December 31, 2014 includes the recovery of the value of specific inventory items of $41,000 (2013 - $111,680 write-down). During the year ended December 31, 2014, $55.4 million (2013 - $41.6 million) of inventory was consumed as cost of sales.

7. INVENTORY (CONTINUED)

Inventory is pledged as security against operating loans, to a maximum of $3.0 million (2013 - $3.0 million). Inventory pledged at December 31, 2014 is $3.0 million (2013 - $3.0 million) (See Note 11).

8. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Computer software	Leasehold improvements	Manufacturing equipment	Office equipment	Tooling and prototypes	Building	Vehicles	Total
				($ thousands)					
Cost									
At December 31, 2012	**3,761**	**1,487**	**19,448**	**17,232**	**987**	**6,339**	**6,282**	**422**	**55,958**
Additions	364	194	1,536	791	38	91	-	52	3,066
Disposals	-	-	(241)	(45)	-	(192)	-	-	(478)
Exchange differences	22	5	630	282	11	36	434	19	1,439
At December 31, 2013	**4,147**	**1,686**	**21,373**	**18,260**	**1,036**	**6,274**	**6,716**	**493**	**59,985**
Additions	397	92	4,128	5,456	-	561	118	60	10,812
Disposals	-	-	(630)	(124)	-	-	-	-	(754)
Exchange differences	32	7	893	404	17	52	609	28	2,042
At December 31, 2014	**4,576**	**1,785**	**25,764**	**23,996**	**1,053**	**6,887**	**7,443**	**581**	**72,085**
Accumulated depreciation and impairment									
At December 31, 2012	**2,790**	**1,485**	**7,860**	**6,124**	**687**	**4,692**	**533**	**289**	**24,460**
Depreciation expense	436	82	2,384	1,728	104	374	260	113	5,481
Disposals	-	-	(241)	(36)	-	-	-	-	(277)
Exchange differences	2	21	135	73	7	25	57	15	335
At December 31, 2013	**3,228**	**1,588**	**10,138**	**7,889**	**798**	**5,091**	**850**	**417**	**29,999**
Depreciation expense	588	190	2,669	2,108	110	433	279	89	6,466
Disposals	-	-	(624)	(107)	-	-	-	-	(731)
Exchange differences	31	7	328	149	13	45	91	26	690
At December 31, 2014	**3,847**	**1,785**	**12,511**	**10,039**	**921**	**5,569**	**1,220**	**532**	**36,424**
Net book value									
At December 31, 2013	919	98	11,235	10,371	238	1,183	5,866	76	29,986
At December 31, 2014	729	-	13,253	13,957	132	1,318	6,223	49	35,661

Manufacturing equipment includes assets under finance lease, which have a cost at December 31, 2014 of $1.0 million (2013 - $1.0 million) and a carrying value of $0.4 million (2013 - $0.5 million).

9. INTANGIBLE ASSETS

	Product development	Software development	Patents and trademarks	Other intangibles	Total
			($ thousands)		
Cost					
At December 31, 2012	**1,149**	**14,555**	**1,633**	**440**	**17,777**
Additions	626	2,642	685	-	3,953
Exchange differences	-	-	1	30	31
At December 31, 2013	**1,775**	**17,197**	**2,319**	**470**	**21,761**
Additions	888	3,230	680	-	4,798
Exchange differences	-	-	1	43	44
At December 31, 2014	**2,663**	**20,427**	**3,000**	**513**	**26,603**
Amortization and impairment					
December 31, 2012	**635**	**7,515**	**674**	**44**	**8,868**
Amortization expense	162	2,427	142	46	2,777
Exchange differences	-	-	-	4	4
At December 31, 2013	**797**	**9,942**	**816**	**94**	**11,649**
Amortization expense	226	2,915	230	49	3,420
Exchange differences	-	-	-	11	11
At December 31, 2014	**1,023**	**12,857**	**1,046**	**154**	**15,080**
Net book value					
At December 31, 2013	978	7,255	1,503	376	10,112
At December 31, 2014	1,640	7,570	1,954	359	11,523

Product development costs represent the costs incurred, primarily employment compensation, in relation to newly designed agile interior solutions. Software development costs represent the costs incurred, primarily employment compensation, in developing ICE software, which will support the business from the point of sale through delivery and installation by providing real-time 3D renderings, price quotations, and manufacturing data. Of the $4.8 million capitalized during the year ended December 31, 2014, $4.1 million was related to product and software development costs (2013 - $4.0 million, $3.3 million, respectively). The Company also has external sales via third party licence and service agreements.

10. TRADE ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	2014	2013
	($ thousands)	
Trade payables	11,572	6,548
Accrued liabilities	11,361	6,002
	22,933	12,550

Trade accounts payable are non-interest bearing and are normally settled on 45-day terms.

11. LONG-TERM DEBT

As at December 31,	2014	2013
	($ thousands)	
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.	2,957	4,874
Capital financing facility, secured by a charge on all assets including manufacturing equipment, with 36 monthly payments of US$93 plus interest at floating rate, which is based on the lender's US prime rate plus 0.5%. Principal payments to begin in May 2015.	3,896	-
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.	2,610	2,659
Finance lease, secured by a charge on specific manufacturing equipment, with 60 monthly payments of US$17 including interest.	384	538
Finance lease, secured by a charge on specific manufacturing equipment, with 36 monthly payments of US$1 including interest.	5	21
	9,852	8,092
Less: Current portion of long-term debt	(3,516)	(2,419)
Long-term debt	6,336	5,673

11. LONG-TERM DEBT (CONTINUED)

The Company has available a revolving operating facility of US$18.0 million, and a capital financing facility of US$5.0 million. At December 31, 2014, $3.9 million had been borrowed against the capital facility (2013 - $nil). At December 31, 2014 and 2013, $nil had been borrowed against the revolving operating facility. Advances under the revolving operating facility are subject to interest at the lender's prime rate plus 0.6% for Canadian dollar advances and the US prime rate plus 0.6% for US dollar advances and are repayable at any time.

Estimated annual principal repayments of long-term debt are due as follows:

As at December 31,	2014	2013
	($ thousands)	
Within one year	3,516	2,419
After one year but not more than five years	6,336	5,673
Total	9,852	8,092

12. PROVISIONS

	Distribution Partner rebates	Warranties	Total
	($ thousands)		
At December 31, 2012	**111**	**235**	**346**
Arising during the period	1,148	97	1,245
Costs incurred	(1,072)	(57)	(1,129)
Foreign exchange revaluation	7	-	7
At December 31, 2013	**194**	**275**	**469**
Arising during the period	3,432	143	3,575
Costs incurred	(3,217)	(30)	(3,247)
Foreign exchange revaluation	17	-	17
At December 31, 2014	**426**	**388**	**814**

Distribution Partner rebates

The Company has entered into a program with its DPs whereby DPs are eligible for a 5% rebate on projects that meet specific criteria. The provision represents management's best estimate of the amounts expected to be paid under the rebate program based on the DPs' eligibility at the end of each reporting period.

12. PROVISIONS (CONTINUED)

Warranties

The Company provides a 10-year warranty on all products. The Company has determined based on historical experience that warranty and deficiency claims occur within a relatively short period from the initial sale (faulty products are identified during product installation) and are usually settled within three months. The Company determines the fair value of the provision by applying a historical claims percentage to recent sales.

13. CONVERTIBLE NOTES

	Equity component	Debt component
	($ thousands)	
At December 31, 2012	**4,003**	**16,279**
Conversion to common shares (1)	(3,890)	-
Partial prepayment (2)	(56)	(10,451)
Loss on derecognition of liability (2)	-	832
Interest accretion	-	2,068
Foreign exchange revaluation	-	1,176
At December 31, 2013	**57**	**9,904**
Interest accretion	-	441
Conversion to common shares (2)	(57)	(10,674)
Loss on conversion (2)	-	307
Foreign exchange revaluation	-	22
At December 31, 2014	**-**	**-**

(1) On June 29, 2012, the Company closed a convertible note offering for gross proceeds of $5.0 million ($4.9 million net of fees). Based on the terms of the notes, and the circumstances dictating conversion, these notes were originally disclosed as equity in their entirety with $3.9 million recognized as equity component of convertible notes and $1.0 million recognized as warrants. The original maturity date of the notes was June 29, 2013. However, on June 14, 2013, an amendment to the agreement was entered into to extend the maturity date to the earlier of a qualified IPO or June 10, 2014. There was no accounting impact on this amendment as the conversion terms remained the same. These notes bore non-cash interest at 6% and were convertible to common shares or preferred shares at $1.74 per share. The total amount of accrued interest up to November 28, 2013 was $0.4 million. Upon completion of the Company's IPO on November 28, 2013, these notes were converted to 3,116,252 common shares and the resulting $4.3 million ($3.9 million plus accrued portion of $0.4 million) reclassified to common share capital as at December 31, 2013 (Note 15(B)).

13. CONVERTIBLE NOTES (CONTINUED)

(2) On December 6, 2012 the Company completed a US$20.0 million convertible note financing ($17.1 million net of fees). The notes bore interest at 8%, paid on a quarterly basis until March 2014, and at 14% thereafter. The original maturity date on the notes was December 6, 2017, and were convertible to common shares of the Company at the option of the note holders, or automatically at the time of a qualified IPO. At the option of the holders, the convertible notes were 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 were 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 was at least 135.0% of the conversion price for no less than 20 trading days in a period of 30 consecutive trading days, and the common shares held by the holders were not subject to any restrictions, encumbrances or prohibitions on transfer, legal or otherwise (including any lock-up agreements). Based on the terms of the notes and the circumstances dictating conversion, the notes, net of fees, were disclosed in part as debt, and in part as equity. The long-term debt component of the notes was recorded at its discounted fair value net of transaction costs of $2.6 million and accreted to face value at a rate of 12.1% over their term to maturity. The equity portion of the notes of $0.9 million was reported net of deferred taxes of $0.8 million as $0.1 million. These notes were subordinate to long-term debt. On October 21, 2013, the Company signed a first and second amendment agreement to the note purchase agreement which amended certain terms and conditions of the original note purchase agreement. In addition to changes to certain clarifying language, financial covenants and financial covenant calculations, the second amendment agreement also provided DIRTT with an optional prepayment clause which could be exercised upon the successful completion of a 2013 IPO. The optional prepayment clause provided the Company an option to prepay, upon completion of an IPO, US$10.0 million principal amount (50% of original principal amount) in cash from the net proceeds of the IPO at a cost equal to the greater of: (i) 3,250,000 multiplied by the US dollar equivalent of the IPO share price or (ii) US$13.5 million; together with, in each case all accrued and unpaid interest to the date of such prepayment. On November 28, 2013, DIRTT completed its IPO with net proceeds of $39.8 million at $3.00 per share and exercised its option to prepay. As per the terms of the amendment agreement, DIRTT paid US$13.5 million ($14.3 million).

13. CONVERTIBLE NOTES (CONTINUED)

Of the $14.3 million paid, $10.5 million was recognized as a reduction in convertible notes as at December 31, 2013 and $3.7 million was recognized as debt settlement expense in the statement of loss and comprehensive loss for the year ended December 31, 2013. Due to the prepayment of US$10.0 million ($10.5 million) principal amount, IAS 32 requires the Company to allocate the consideration paid for the prepayment of the liability and equity components using the same allocation method as the method for allocating the initial transaction price (i.e. determine the fair value of the liability component), with the residual amount being allocated to equity. IAS 32 also requires any gain or loss resulting from the allocation of the consideration paid to be recognized in profit or loss relating to the liability component and to equity relating to the equity component. As a result, $10.5 million was allocated to liability and $nil to equity. The carrying value related to the 50% repayment prior to the repayment was $9.7 million, and as a result, $0.8 million was recognized as loss on derecognition of liability in the statement of loss and comprehensive loss for the year ended December 31, 2013. In addition, $56,000 of the original $113,000 recognized in equity, as discussed above, was reclassified to contributed surplus as at December 31, 2013.

On June 17, 2014, the Company completed a secondary offering of 7,155,594 common shares of the Company with a select group of shareholders at an offering price of $2.60 per common share. The Company did not receive any proceeds from the secondary offering, but incurred $0.5 million of transaction costs. In connection with the secondary offering, at the option of the holders, $5.3 million of principal and $0.2 million of accrued interest were converted into 2,430,595 common shares of DIRTT. On July 9, 2014, the Company met the criteria noted above and converted the remaining balance of the convertible notes, $5.4 million of principal and $51,000 of accrued interest, into 2,380,006 common shares of DIRTT. Due to the conversion of $10.7 million principal amount of the convertible notes into common shares, IAS 32 requires the Company to allocate the conversion amount to the liability and equity components using the same allocation method as the method for allocating the initial transaction price (i.e. determine fair value of the liability component), with the residual amount being allocated to equity. As a result, $10.7 million was allocated to liability and $nil to equity. The carrying value related to the conversion amount prior to conversion was $10.4 million, and as a result, $0.3 million was recognized as loss on derecognition of liability in the statement of income (loss) and comprehensive income (loss) for year ended December 31, 2014. In addition, the remaining $57,000 in equity was reclassified to common share capital. As a result of the conversions, no convertible notes remain outstanding as of December 31, 2014.

14. INCOME TAXES

A) Provision for income taxes

	For the year ended December 31,	
	2014	2013
	($ thousands)	
Current tax expense	662	455
Deferred tax (recovery) expense	(25)	841
Income tax expense	637	1,296

B) Reconciliation of income taxes

The following reconciles income taxes calculated at the Canadian statutory rate with the actual income taxes.

	For the year ended December 31,	
	2014	2013
	($ thousands)	
Net income (loss) before tax	6,591	(15,199)
Canadian statutory rate	25.21%	25.44%
Expected income tax	1,662	(3,867)
Effect on taxes resulting from:		
Non-deductible expenses	290	1,771
Research and development pools	(177)	(606)
Non-deductible stock-based compensation	352	100
Tax rate impacts	80	138
True up of prior year tax expense	(358)	131
Unrecognized deferred tax asset	(1,601)	3,457
Other	389	172
Income tax expense	637	1,296

14. INCOME TAXES (CONTINUED)

C) Deferred tax assets

	Operating losses	Share issue costs	R&D pools	Miscellaneous	Total
		($ thousands)			
As at December 31, 2012	**3,849**	**232**	**1,068**	**(52)**	**5,097**
(Credited) charged to the consolidated statement of income (loss) and comprehensive income (loss)	(678)	(232)	(41)	264	(687)
As at December 31, 2013	**3,171**	**-**	**1,027**	**212**	**4,410**
(Credited) charged to the consolidated statement of income (loss) and comprehensive income (loss)	(2)	-	(341)	93	(250)
As at December 31, 2014	**3,169**	**-**	**686**	**305**	**4,160**

D) Deferred tax liabilities

	Property, plant and equipment	Intangible assets	Compound financial instruments	Total
		($ thousands)		
As at December 31, 2012	**292**	**1,857**	**771**	**2,920**
Charged (credited) to the consolidated statement of income (loss) and comprehensive income (loss)	301	214	(400)	115
As at December 31, 2013	**593**	**2,071**	**371**	**3,035**
Charged (credited) to the consolidated statement of income (loss) and comprehensive income (loss)	(327)	242	(371)	(456)
As at December 31, 2014	**266**	**2,313**	**-**	**2,579**

Net deferred tax asset	$ 1,581
Which comprises:	
Consolidated net deferred tax assets	$ 2,099
Consolidated net deferred tax liabilities	(518)
	$ 1,581

E) Unrecognized deferred income tax assets

	Operating losses	Share issue costs	R&D pools	Miscellaneous	Total
		($ thousands)			
As at December 31, 2012	**1,867**	**570**	**110**	**-**	**2,547**
Movement during 2013	4,494	1,398	366	496	6,754
As at December 31, 2013	**6,361**	**1,968**	**476**	**496**	**9,301**
Movement during 2014	(2,353)	(439)	689	516	(1,587)
As at December 31, 2014	**4,008**	**1,529**	**1,165**	**1,012**	**7,714**

Tax loss carry forward

As at December 31, 2014, the Company has consolidated loss carry forwards of $20.6 million and US$4.6 million (2013 - $29.8 million and US$4.8 million). These losses will expire in the years 2027 to 2034.

15. SHAREHOLDERS' CAPITAL

A) Authorized shares

Unlimited number of voting common shares.

B) Issued and outstanding

($ in thousands, except share amounts)	Number of shares	Amount $
At December 31, 2012	**36,280,278**	**54,268**
Issued on completion of IPO [1]	15,000,000	45,000
Share capital issuance costs [1]	-	(4,448)
Issued on conversion of preferred shares [2]	12,643,676	23,969
Issued on conversion of convertible notes - June (Note 13)	3,116,252	4,312
Issued on conversion of liquidity price warrants [3]	1,816,610	-
Issued on exercise of stock options	11,801	26
At December 31, 2013	**68,868,617**	**123,127**
Conversion of convertible notes into common shares - principal [4]	4,715,091	10,674
Conversion of convertible notes into common shares - accrued interest [4]	95,510	215
Reclassification of equity component of convertible notes [4]	-	57
Issued on exercise of Series A broker warrants	25,000	88
Issued on exercise of convertible notes warrants	646,386	1,350
Issued on exercise of stock options	2,245,944	7,875
At December 31, 2014	**76,596,548**	**143,386**

(1) Upon completion of the Company's IPO on November 28, 2013, the Company issued 15,000,000 common shares at $3.00 per share for gross proceeds of $45.0 million. Total transaction costs incurred on the IPO was $5.2 million, of which $4.4 million (incremental costs that are directly attributable to issuing new shares) was recognized as a reduction in equity as at December 31, 2013; and $0.8 million (costs that relate to the listing of existing shares) was recognized as IPO transaction costs in the statement of loss and comprehensive loss for the year ended December 31, 2013. Transaction costs consisted of underwriters' commission and fees, audit, legal, filing, printing, translation and miscellaneous fees. Transaction costs that relate to both new share issuance and listing of existing shares were allocated between those functions based on the number of shares.

(2) Upon completion of the Company's IPO on November 28, 2013, per the terms of the financing, the entire class A preferred shares were converted into 12,643,676 (rounded down) common shares.

15. SHAREHOLDERS' CAPITAL (CONTINUED)

(3) Upon completion of the Company's IPO on November 28, 2013, all of the liquidity price warrants outstanding were converted to 1,816,610 (rounded down) common shares at a conversion rate of 0.25 since the IPO share price was $3.00 per share.

(4) As previously discussed in Note 13, the conversion of $10.9 million principal amount of convertible notes and accrued interest in 2014 resulted in an issuance of 4,810,601 common shares of DIRTT.

Warrants – Convertible Notes

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2012	**-**	**-**
Issued	1,436,782	994
Exercised	-	-
At December 31, 2013	**1,436,782**	**994**
Issued	-	-
Exercised	(831,519)	(575)
At December 31, 2014	**605,263**	**419**

In connection with the convertible notes issued on June 29, 2012, 1,436,782 warrants were issued entitling the note holders to purchase one common share per warrant at $1.74 per share for a period of 60 months from the date the notes were issued. These warrants were valued using the Black Scholes model with the following assumptions: expected term - 60 months, expected volatility - 47.79%, expected dividend yield - 0%, risk-free interest rate - 2.5%, weighted average fair value of warrants - $0.69. During the year ended December 31, 2014, the Company received cash proceeds of $0.8 million from the exercise of 831,519 warrants.

Broker Warrants – Series A

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2012	**338,450**	**-**
Issued	-	-
Exercised	-	-
At December 31, 2013	**338,450**	**-**
Issued	-	-
Exercised	(25,000)	-
At December 31, 2014	**313,450**	**-**

15. SHAREHOLDERS' CAPITAL (CONTINUED)

In connection with the convertible debenture financing that closed in 2009, broker warrants were issued entitling the agents for the transaction to purchase common shares at $3.50 per share. These warrants have an expiry date of November 28, 2015. During the year ended December 31, 2014, the Company received cash proceeds of $0.1 million from the exercise of 25,000 warrants.

Broker Warrants - Series B

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2012	**130,500**	**71**
Issued	-	-
Exercised	-	-
At December 31, 2013	**130,500**	**71**
Issued	-	-
Exercised	-	-
At December 31, 2014	**130,500**	**71**

In connection with the preferred share financing that closed March 16, 2011, 130,500 broker warrants were issued entitling the agent for the transaction to purchase common shares at $3.00 per share for a period of 48 months from the date of the financing or 24 months from the date of listing of the Company's shares on a public stock exchange, whichever is sooner. These warrants were valued using the Black-Scholes model with the following assumptions: expected term - 48 months, expected volatility - 47.47%, expected dividend yield - 0%, risk-free interest rate - 2.5%, weighted average fair value of warrants - $0.54. These warrants remained outstanding as at December 31, 2014.

Warrants – intangibles purchase

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2012	**-**	**-**
Issued	100,000	36
Exercised	-	-
At December 31, 2013	**100,000**	**36**
Issued	-	-
Exercised	-	-
At December 31, 2014	**100,000**	**36**

15. SHAREHOLDERS' CAPITAL (CONTINUED)

On September 30, 2012, under the terms of an agreement to purchase intangible assets, 100,000 warrants were issued to purchase common shares at US$2.50 per share for a period of 60 months from the issue date. These warrants were valued using the Black Scholes model with the following assumptions: expected term - 60 months, expected volatility - 47.56%, expected dividend yield - 0%, risk-free interest rate - 3.0%, weighted average fair value of warrants - $0.46. The total fair value of these warrants was $36,689, net of an expected forfeiture rate of 20%. As at December 31, 2014, these warrants remained outstanding.

16. 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 year ended December 31, 2014, 2.7 million options were granted at a weighted average exercise price of $3.56 and 2.2 million options were exercised. For the year ended December 31, 2013, 20,000 options were granted at a weighted average exercise price of $2.50 and 11,801 options were exercised.

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

	Number of options	Weighted average exercise price $
Outstanding at December 31, 2012	**4,644,683**	**2.19**
Granted	20,000	2.50
Exercised	(11,801)	1.57
Forfeited	(337,015)	2.44
Expired	-	-
Outstanding at December 31, 2013	**4,315,867**	**2.33**
Granted	2,741,650	3.56
Exercised	(2,245,944)	2.55
Forfeited	(145,006)	3.24
Expired	(45,750)	2.63
Outstanding at December 31, 2014	**4,620,817**	**2.92**
Exercisable at December 31, 2014	**1,715,889**	**2.16**

16. SHARE-BASED TRANSACTIONS (CONTINUED)

Range of exercise prices outstanding at December 31, 2014:

Range of exercise prices	Number outstanding	Weighted average remaining contractual years	Weighted average exercise price $	Number exercisable	Weighted average remaining contractual years	Weighted average exercise price $
$1.00 - $1.99	856,150	2.4	1.50	583,240	2.4	1.50
$2.00 - $2.99	1,254,917	1.0	2.54	1,129,316	0.7	2.50
$3.00 - $4.00	2,509,750	4.5	3.59	3,333	3.7	3.00

Range of exercise prices outstanding at December 31, 2013:

Range of exercise prices	Number outstanding	Weighted average remaining contractual years	Weighted average exercise price $	Number exercisable	Weighted average remaining contractual years	Weighted average exercise price $
$1.00 - $1.99	1,251,217	2.7	1.49	617,377	2.0	1.48
$2.00 - $2.99	1,954,450	1.4	2.39	1,837,370	1.3	2.38
$3.00 - $4.00	1,110,200	0.9	3.15	1,100,200	0.8	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 year ended December 31, 2014	2013
Expected option term (years)	5	5
Weighted average expected volatility	51.54%	52.54%
Expected dividend yield	N/A	N/A
Weighted average risk-free interest rate	1.53%	3.00%
Expected forfeiture %	5%	0%
Weighted average fair value of option	$ 1.63	$ 0.97

17. REVENUE

	For the year ended December 31, 2014	2013
	($ thousands)	
Sale of goods	184,183	135,416
Rendering of services	3,146	4,379
	187,329	139,795

18. COST OF GOODS SOLD

Cost of goods sold of $109.3 million for the year ended December 31, 2014 (2013 - $86.5 million) includes the cost of material and components, manufacturing salaries, wages, benefits and overhead costs, depreciation of equipment and tooling for manufacturing related assets, warranty costs and product transportation costs.

19. SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative costs of $70.2 million for the year ended December 31, 2014 (2013 - $56.7 million) includes wages, salaries and benefits, sales commissions, marketing costs, facility rent, non-cash charges for stock-based compensation and depreciation and amortization of non-manufacturing related assets.

20. FINANCE COSTS

Finance costs comprise the following amounts:

	For the year ended December 31,	
	2014	2013
	($ thousands)	
Accreted/ accrued interest (non-cash):		
Preferred shares	-	1,112
Convertible notes [1]	657	2,068
Convertible notes [2]	-	318
Convertible notes [1]	413	1,592
Credit facilities	289	144
	1,359	5,234

(1) Related to the US$20.0 million convertible notes issued in December 2012. Interest of 8% was paid quarterly up to March 6, 2014. Effective March 7, 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. As previously discussed in Note 13, the Company converted the remaining portion of these convertible notes in June and July 2014 and as a result, no convertible notes remain outstanding as of December 31, 2014.

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

21. BASIC AND DILUTED INCOME (LOSS) PER SHARE

The calculation of basic and diluted income (loss) per share for the year ended December 31, 2014 was based on the net income of $6.0 million (2013 – net loss $16.5 million), and a weighted average number of common shares outstanding of 72,151,809 (2013 – 39,230,344).

	For the year ended December 31,	
	2014	**2013**
Weighted average shares outstanding	72,151,809	39,230,344
Stock options in the money	1,050,889	-
Convertible warrants	840,070	-
Fully diluted shares outstanding	74,042,768	39,230,344

As the Company was in a loss position for the year ended December 31, 2013, all convertible securities were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. For the year ended December 31, 2014, 3,569,928 options were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

22. CHANGE IN NON-CASH WORKING CAPITAL

	For the year ended December 31,	
	2014	**2013**
	($ thousands)	
Trade and other receivables	(11,259)	1,435
Inventory	(3,721)	(3,314)
Prepaids and other current assets	(795)	(73)
Long-term deposits	(102)	19
Trade accounts payable and accrued liabilities	10,383	15
Customer deposits	(1,099)	(233)
Provisions	345	123
	(6,248)	(2,028)

23. 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, based on location of operations; and information about its non-current assets, are detailed below.

23. SEGMENT REPORTING (CONTINUED)

Revenue from external customers

	For the year ended December 31, 2014	2013
	($ thousands)	
Canada	42,631	26,029
USA	144,698	113,766
	187,329	139,795

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

As at December 31,	2014	2013
	($ thousands)	
Canada	31,753	25,343
USA	17,900	17,122
	49,653	42,465

The amounts above exclude notes receivable and deferred tax assets.

24. 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 December 31, 2014 the balance outstanding was $0.5 million (December 31, 2013 - $0.5 million).

During the year ended December 31, 2014, the Company recorded revenue of $5.1 million (2013 - $3.8 million) from a DP which is owned by a director of the Company. At December 31, 2014, the outstanding balance in accounts receivable was $0.4 million (December 31, 2013 - $0.2 million), and is included in trade and other receivables. In addition, at December 31, 2014, the outstanding balance in customer deposits received was $0.3 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.

24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

Compensation of key management personnel

The remuneration of seven officers and seven directors was as follows:

	For the year ended December 31,	
	2014	**2013**
	($ thousands)	
Compensation including bonuses	3,232	2,285
Stock-based compensation	1,222	-
	4,454	2,285

25. CAPITAL MANAGEMENT

The Company has $95.8 million (December 31, 2013 - $68.6 million) of total capital resources, comprised of Shareholders' Equity. The Company also has total debt of $9.9 million (December 31, 2013 - $18.0 million), comprised of current and long-term debt of $9.9 million (December 31, 2013 - $8.1 million), and a debt component of convertible notes of $nil (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.

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.

25. CAPITAL MANAGEMENT (CONTINUED)

As previously discussed in Note 13, the Company converted all of its remaining convertible notes into common shares of DIRTT in June and July 2014 and as a result eliminated the related covenants. As at December 31, 2014, the Company was in compliance with its lending institution's debt covenant. The covenant threshold is detailed below:

At December 31, 2014	
Minimum Tangible Net Worth	60,000,000

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

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

[(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.

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

"Fixed Charge Coverage Ratio" means the ratio of (i) EBITDA less the sum of (a) any provision for (or plus any benefit from) cash income taxes for the most recently completed 12-month period plus (b) all capital expenditures during such period less any excluded capital expenditures (as defined below) to (ii) fixed charges (which includes scheduled principal payments and interest expense) for such period.

"EBITDA", as defined by the note purchase agreement, is calculated as consolidated net income/loss for the most recently completed 12-month period, plus amounts deducted in respect of (a) income tax expense, (b) depreciation and amortization expense, (c) finance costs (interest expense), (d) transaction costs, (e) IPO costs, and (f) non-cash stock-based compensation expense. For purposes of this calculation, consolidated net income/loss excludes (a) gain or loss from asset dispositions (other than sales of inventory), (b) any gain or loss associated with the write-up or write-down of assets, (c) extraordinary or non-recurring gains or non-cash losses, net of the related tax effects, and other adjustments required by the Lender.

25. CAPITAL MANAGEMENT (CONTINUED)

For the purpose of calculating the fixed charge coverage ratio, for measurement periods between October 2013 and December 31, 2016, "Excluded Capital Expenditures" are amounts that the Company may elect to reduce actual capital expenditures for such period provided that the aggregate amount of all excluded capital expenditures utilized by the Company may not exceed the excluded capital expenditure cap of $12.8 million. Notwithstanding the foregoing, for the purposes of the calculation of the fixed charge coverage ratio for the measurement period ended December 31, 2013, as stipulated by the lending institutions, the Company's quarterly capital expenditures shall be the amounts set forth below:

Fiscal quarter ended	Stipulated capital expenditures ($ thousands)
December 31, 2013	246
September 30, 2013	129
June 30, 2013	1,041
March 31, 2013	604

"Leverage Ratio" means the ratio of (i) indebtedness (including the principal amount of convertible notes, but excluding the debt component of preferred shares) as at such date; to (ii) EBITDA for the most recently completed 12-month period. Indebtedness shall be reduced by the amount of cash on hand as of such date. Prior to the second amendment agreement, indebtedness was reduced by the amount of cash on hand as of such date in an amount not to exceed $10.0 million.

26. 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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

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 year ended December 31, 2014 was $0.1 million (2013 - $0.5 million).

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 December 31, 2014, 56.9% (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, and government sales that are not covered by EDC. 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 December 31,	2014	2013
	($ thousands)	
Cash and cash equivalents	39,836	34,373
Trade and other receivables	28,425	17,166
	68,261	51,539

26. 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 December 31, 2014	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years
			($ thousands)		
Trade accounts payable and accrued liabilities	22,933	22,933	22,933	-	-
Customer deposits	7,271	7,271	7,271	-	-
Current and long-term debt	9,852	10,475	3,813	2,742	3,920
	40,056	40,679	34,017	2,742	3,920

As at December 31, 2013	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years
			($ thousands)		
Trade accounts payable and accrued liabilities	12,550	12,550	12,550	-	-
Customer deposits	8,370	8,370	8,370	-	-
Current and long-term debt	8,092	8,527	2,522	2,664	3,341
Convertible notes	9,904	14,939	1,206	1,276	12,457
	38,916	44,386	24,648	3,940	15,798

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 December 31, 2014, term loans totalling $9.5 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 decrease net income (loss) and comprehensive income (loss) by $47,318 for the year ended December 31, 2014 (2013 - $37,666). An equal decrease in rates would generate an equal amount of interest savings.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

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 income (loss) and comprehensive income (loss).

	Amount (USD)	**Change in currency**	**Effect of net income (loss) and comprehensive income (loss) for the year ended December 31, 2014**
	($ thousands)	%	($ thousands)
Cash and cash equivalents	24,365	2.5	609
Trade and other receivables, net of deposits	17,422	2.5	436
Trade accounts payable and accrued liabilities	(10,932)	2.5	(273)
Current portion of debt (less than six months)	(518)	2.5	(13)
Long-term portion of debt (greater than six months)	(5,760)	10.0	(576)
	24,577		183

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 18% of its 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 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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (Continued)

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;

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.

27. COMMITMENTS AND CONTINGENCIES

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.

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Annual future non-cancellable operating lease commitments require annual payments as follows:

As at December 31,	2014	2013
	($ thousands)	
Within one year	3,604	2,846
After one year but not more than five years	12,569	8,483
More than five years	3,124	4,000
	19,297	15,329

Contingent liabilities

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