MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the operating results and financial position of DIRTT Environmental Solutions Ltd. and its subsidiaries ("DIRTT", the "Company", "we", "us" or "our") was prepared as of March 4, 2015, and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2014 compared to the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's reporting currency is the Canadian dollar. Additional information, including the Company's annual information form for the year ended December 31, 2014 (the "AIF") can be found on SEDAR at www.sedar.com.

This MD&A contains references to Canadian dollars and United States dollars. Canadian dollars are referred to as "$" and United States dollars are referred to as "US$". All amounts are expressed in thousands of Canadian dollars unless otherwise stated.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information and statements contained in this MD&A constitute "forward-looking information" and "forward-looking statements" (collectively, "Forward-Looking Information") as defined under applicable Canadian securities laws and the Company hereby cautions about important factors that could cause the Company's actual results or outcomes to differ materially from those projected in any Forward-Looking Information contained in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "believes", "estimated", "intends", "plans", "projection" and "outlook"), are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such Forward-Looking Information.

In particular and without limitation, this MD&A contains Forward-Looking Information pertaining to the following: comments with respect to our revenue, objectives and priorities for 2015 and beyond; project timetables; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; use of proceeds from the IPO (as defined herein); and our outlook for our operations and the Canadian, United States (the "US") and international economies, and in particular; the US construction industry.

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

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

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

DIRTT cautions that the foregoing lists of factors are not exhaustive. Further, Forward-Looking Information is made as of the date hereof, and the Company undertakes no obligation to update Forward-Looking Information to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable Canadian securities laws. New factors emerge from time to time, and it is not possible for DIRTT's management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in Forward-

Looking Information. No assurance can be given that these expectations will prove to be correct and such Forward-Looking Information contained in this MD&A should not be unduly relied upon. In addition, this MD&A may contain Forward-Looking Information attributed to third party industry sources.

MARKET AND INDUSTRY DATA

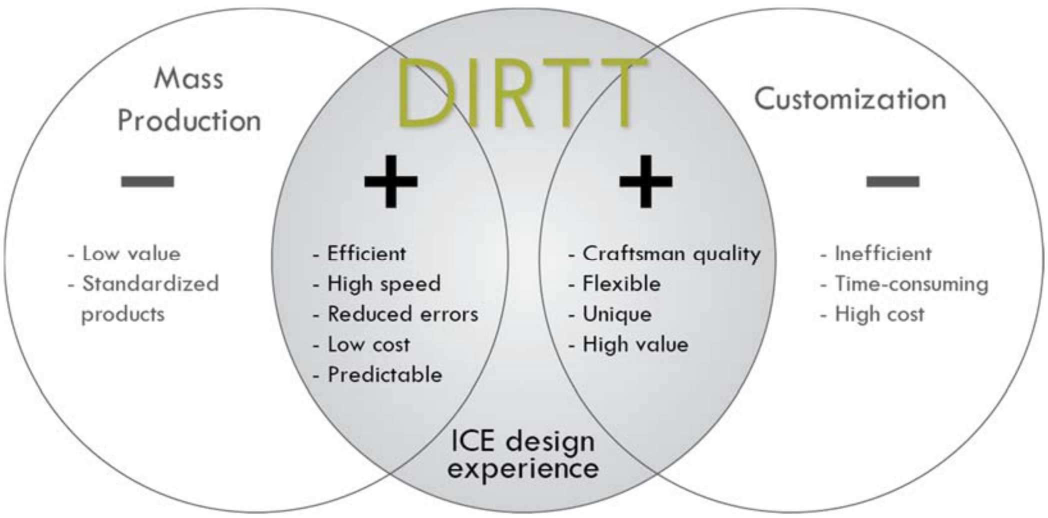
Certain market and industry data contained in this MD&A is based upon information from government or other third party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third party publications and reports do not guarantee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

OVERVIEW

We are a leading technology-driven manufacturer of highly customized interiors. We combine our proprietary ICE® 3D design, configuration and manufacturing software ("ICE" or "ICE Software") with integrated in-house manufacturing of our innovative prefabricated interior construction solutions and an extensive Distribution Partner ("DP") network. A DP is a third party who enters into a formal agreement to market and sell our solutions. DPs are required to invest in their own regional DIRTT team consisting of at least one DIRTT champion (sales role), a designer and a project manager; in a Green Learning Center ("GLC") display area to showcase the potential of DIRTT Solutions (as defined below) to clients; and to purchase an ICE Software package. As of the date hereof, we had 99 DPs in 177 locations. We are underpinned by a strong entrepreneurial culture and provide a unique, end-to-end solution for the inefficient and fragmented interior construction industry.

DIRTT stands for: Doing It Right This Time.

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



DIRTT Solutions, including DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Ceilings, DIRTT Millwork and DIRTT Floors, address the challenges associated with traditional interior construction methods.

COMPARISON WITH CONVENTIONAL APPROACH

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

We are not dependent on any one client, DP, industry or minimum job size. Our clients range from small owner-managed businesses to large multinational Fortune 500 corporations in a diverse range of industries including healthcare, education, financial services, government and military, manufacturing, non-profit, oil and gas, professional services, retail, and technology. As at December 31, 2014, we had more than 3,300 clients. For the year ended December 31, 2014, our average project size was approximately $81,000 (2013 - $70,000), with the single largest project (on a per project order basis) being $1.2 million (2013 - $1.2 million). The largest individual project completed in our company history was valued at US$19.4 million, which was completed in early 2013.

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

	Three months ended December 31,		**Year ended December 31,**	
	2014	**2013**	**2014**	**2013**
		($ thousands)		
Canada	10,291	5,565	42,631	26,029
USA	47,654	28,637	144,698	113,766
	57,945	**34,202**	**187,329**	**139,795**

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

KEY PERFORMANCE INDICATORS

We continuously monitor and review our activities and key performance indicators, which we believe are critical to evaluating our growth, financial results, and operating performance. Key performance indicators which we use to evaluate our business include revenue; revenue growth; gross profit; adjusted gross profit; adjusted selling, general and administrative expenses ("SG&A"); and adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"). We evaluate our performance on these metrics by comparing actual results to management budgets, forecasts, and prior period results. Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A as a percentage of revenue, EBITDA and adjusted EBITDA are non-IFRS measures. See "Non-IFRS Measures" for a reconciliation of these items.

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

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

Our results of operations are influenced by a variety of factors, including:

Revenue

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

We monitor revenue growth as a key metric in the evaluation of the business. We intend to pursue our growth strategy through continued investment in: (i) efforts to increase penetration of existing markets; (ii) efforts to expand to new geographical markets; (iii) efforts to penetrate new industry verticals; and (iv) efforts to develop new products and solutions. Revenue growth is an indicator of the effectiveness of these investments.

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

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

Gross Profit/Adjusted Gross Profit

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

Adjusted gross profit is gross profit before the deduction of the depreciation of equipment and tooling for manufacturing-related assets that is included in cost of goods sold. We use this measure as an indicator of cash generated from the production of goods and services that we sell.

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

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

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

SG&A/ Adjusted SG&A

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

Adjusted SG&A is SG&A before the inclusion of depreciation and amortization of non-manufacturing related assets and non-cash stock-based compensation expense. We use this measure to assess the scalability of our operations.

We monitor these expenses as a measure of the efficiency and effectiveness of our sales and marketing efforts and overall administrative support efforts by comparing them to management budgets, forecasts and prior period results. These costs can fluctuate from quarter to quarter or year to year as a result of changes in the amount we spend in our marketing and other efforts, and unexpected fluctuations in expenses as compared to management budgets.

The strengthening of the US dollar will have some negative impact on the overall SG&A costs.

Finance costs

Finance costs include interest expense on short and long-term debt, and the convertible notes. Finance costs also include non-cash accretion expense from the convertible notes and the debt component of the class A preferred shares in the capital of the Company (“Preferred Shares”). The Preferred Shares were fully converted into Common Shares prior to our IPO.

Finance costs are derived from the financing activities of the Company. To fund capital growth, we issued US$20.0 million of convertible notes in December 2012 ("December 2012 Notes") with an interest rate of 8%, paid on a quarterly basis until March 2014 and at 14% (12% cash and 2% non-cash) thereafter. In November 2013, upon completion of our IPO, we repaid US$10.0 million of these December 2012 Notes from the proceeds of the IPO. In addition we also paid a US$3.5 million prepayment premium in accordance with the terms of the December 2012 Notes. The remaining US$10.0 million December 2012 Notes were fully converted into Common Shares in June and July 2014.

We currently have an unused credit facility of US$18.0 million and a capital financing facility of US$5.0 million, of which US$1.6 million is currently unused, each with variable interest rates.

Adjusted EBITDA

Adjusted EBITDA is EBITDA plus non-cash foreign exchange gains or losses on debt revaluation; gains or losses on disposal of property, plant and equipment and intangible assets; write-off of property, plant and equipment and intangible assets; non-cash stock-based compensation expense; transaction costs; and any other non-recurring gains or losses.

We use adjusted EBITDA to assess our ability to generate cash flows, service debt, pay current taxes, and fund capital expenditures. Adjusted EBITDA can fluctuate from quarter to quarter or year to year as a result of the factors that impact revenue, gross profit and SG&A expenses discussed above.

FOURTH QUARTER 2014 HIGHLIGHTS

- Revenue increased by $23.7 million to $57.9 million or 69.4% over Q4 2013;
- Adjusted gross profit percentage (see "Non-IFRS Measures") improved by 6.0% from 38.4% to 44.4% over Q4 2013;
- Adjusted EBITDA (see "Non-IFRS Measures") increased by $9.7 million to $9.8 million over Q4 2013; and
- Net cash flows provided by operating activities before changes in non-cash working capital (see "Non-IFRS Measures") increased by $14.5 million to $9.9 million over Q4 2013.

FULL YEAR 2014 HIGHLIGHTS

In addition to the highlights reported in the fourth quarter of 2014, during the year ended December 31, 2014:

- Revenue increased by $47.5 million to $187.3 million or 34.0% over 2013;
- Adjusted gross profit percentage improved by 3.4% from 39.5% to 42.9% over 2013;
- Adjusted EBITDA increased by $14.4 million to $19.9 million over 2013;
- Net cash flows provided by operating activities before changes in non-cash working capital increased by $19.0 million to $20.0 million over 2013;
- DIRTT completed a bought-deal secondary offering of $18.6 million;
- The remaining 14% senior subordinated December 2012 Notes were converted into 4.8 million Common Shares;
- DIRTT announced notice of contract award in excess of US$30.0 million to DIRTT and its DP which began in Q4 2014;
- Five significant projects totalling more than $12.0 million were signed and completed as of Q3 2014;
- The Employee Share Purchase Plan ("ESPP") was launched in May 2014; and
- Our new Enzo Approach to interior construction was launched at our annual marketing and training event in Chicago in June 2014.

ANNUAL MARKETING INITIATIVE – DIRTT CONNEXT™

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

EMPLOYEE SHARE PURCHASE PLAN

In May 2014, the Company officially launched the ESPP, which was approved by our Board of Directors (the "Board") on March 10, 2014, to encourage employee ownership of Common Shares and to align the interests of staff more closely with those of shareholders. Adopting the ESPP complements our unique culture and allows employees to further participate in the long-term success of the Company. All employees are eligible to participate in the ESPP and may purchase Common Shares up to an aggregate amount of 10% of their base salaries. DIRTT will contribute an additional 50% of each such employee-contributed amount toward further purchases. All Common Shares will be purchased through the facilities of the TSX and all Common Shares purchased through DIRTT contributions will be required to be held for a minimum of one year from the date of purchase. As of the date hereof, 20.6% of employees have enrolled in the ESPP at an average contribution rate of 6.6%.

SECONDARY OFFERING

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

SHAREHOLDER RIGHTS PLAN

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

SELECTED ANNUAL INFORMATION

In 2012, we changed our financial year end, as permitted under National Instrument 51-102, Continuous Disclosure Obligations, from September 30 to December 31 and as a result, the presentation of the 2012 year reflects the 15 months ended December 31, 2012. The selected information presented below has been derived from and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2014 and 2013, and the audited consolidated financial statements and related notes for the 15 months ended December 31, 2012.

	Twelve months ended		Fifteen months
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	($ thousands, except share and per share amounts)		
Operations			
Revenue	187,329	139,795	173,566
Operating income (loss)	7,300	(4,267)	(4,369)
Other expenses	(709)	(10,932)	(3,953)
Net income (loss)	5,954	(16,495)	(7,144)
Net income (loss) attributable to common shareholders	5,954	(16,495)	(7,480)
Net income (loss) attributable to common shareholders per share			
Basic	0.08	(0.42)	(0.21)
Diluted	0.08	(0.42)	(0.21)
Weighted average number of shares outstanding			
Basic	72,151,809	39,230,344	36,267,509
Diluted	74,042,768	39,230,344	36,267,509
As at December 31,	**2014**	**2013**	**2012**
	($ thousands)		
Financial position			
Total assets	137,428	108,891	82,680
Current portion of long-term debt	3,516	2,419	784
Non-current financial liabilities			
Long-term debt	6,336	5,673	2,074
December 2012 Notes	-	9,904	16,279
Debt component of the Preferred Shares	-	-	14,253
Total shareholders' equity	95,797	68,600	26,731

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three months and year ended December 31, 2014 and 2013.

	Three months ended December 31,		Year ended December 31,	
	2014	**2013**	**2014**	**2013**
	($ thousands, except per share amounts)			
Revenue	57,945	34,202	187,329	139,795
Gross profit	25,050	12,603	78,043	53,296
Gross profit %	43.2%	36.8%	41.7%	38.1%
Adjusted gross profit % (1)	44.4%	38.4%	42.9%	39.5%
Selling, general and administrative ("SG&A")	18,470	14,724	70,235	56,727
Adjusted SG&A (1)	16,495	12,962	61,187	50,010
Adjusted SG&A as a % of revenue (1)	28.5%	37.9%	32.7%	35.8%
Operating income (loss)	6,580	(2,957)	7,300	(4,267)
Finance costs	77	1,140	1,359	5,234
Adjusted EBITDA (1)	9,793	82	19,916	5,525
Income tax expense	504	963	637	1,296
Net income (loss)	6,553	(10,151)	5,954	(16,495)
Net income (loss) per basic share	0.09	(0.25)	0.08	(0.42)
Net income (loss) per diluted share	0.09	(0.25)	0.08	(0.42)

Note:

(1) See "Non-IFRS Measures".

Revenue

Revenue increased by $23.7 million or 69.4% in the three months ended December 31, 2014 compared with the same period in 2013. Revenue increased by $47.5 million or 34.0% in the year ended December 31, 2014 compared with 2013. The increase in revenue was mainly due to a general improvement in business levels during 2014 compared with 2013.

As a significant amount of our revenue is generated by the US market, we also benefitted from a stronger US dollar during the three months and year ended December 31, 2014.

Total revenue reported for the year ended December 31, 2014, included $12.0 million of significant projects announced in January 2014. These projects, for leading players in the energy, insurance and healthcare sectors, were completed as of the third quarter of 2014.

Also included in the total revenue reported for the three months and year ended December 31, 2014 was $5.0 million and $5.4 million, respectively, from the previously announced US$30.0 million contract awarded to DIRTT and our DP Agile OFIS of Houston, Texas.

Adjusted Gross Profit

Adjusted gross profit as a percentage of revenue increased by 6.0% from 38.4% to 44.4% in the three months ended December 31, 2014 compared with the same period in 2013.

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

Adjusted gross profit as a percentage of revenue increased by 3.4% from 39.5% to 42.9% in the year ended December 31, 2014 compared with the same period in 2013. The increase was due primarily to significantly stronger revenue in 2014 compared with the same period in 2013, leading to greater efficiencies driven by higher overall volumes in our production facilities. Higher production volumes enable better absorption of fixed costs included in cost of goods sold, such as facilities costs and indirect labor costs, particularly as the sales and production volumes, with the exception of April, were generally consistent throughout 2014. The stronger US dollar also contributed to higher adjusted gross profit in the three months and year ended December 31, 2014 as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

Adjusted SG&A Expenses

Adjusted SG&A expenses increased by $3.5 million or 27.3% in the three months ended December 31, 2014 compared with the same period in 2013. Adjusted SG&A as a percentage of revenue decreased by 9.4% from 37.9% to 28.5% in the three months ended December 31, 2014 compared with the same period in 2013. The most significant change can be attributed directly to sales-related efforts as salaries and benefits increased by $0.9 million and commission expense for our internal sales representatives and industry specific experts increased by $1.2 million. These costs reflect personnel additions focused on generating and supporting higher business volumes, and are consistent with the use of proceeds as outlined in our prospectus filed ahead of our IPO. Included in the $0.9 million increase in salaries and benefits is $0.5 million of accrued bonuses for senior management in accordance with the Board-approved 2014 bonus plan. Higher commission costs are in line with the higher revenue volumes in the current quarter. Other increases in adjusted SG&A in the current quarter included travel and marketing costs of $0.8 million, professional services of $0.2 million, rent expense of $0.2 million and $0.2 million in other miscellaneous items. The stronger US dollar contributed to the overall increase in adjusted SG&A across the organization in the current quarter.

Adjusted SG&A expenses increased by $11.2 million or 22.3% in the year ended December 31, 2014 compared with the same period in 2013. Adjusted SG&A as a percentage of revenue decreased by 3.1% from 35.8% to 32.7% in the year ended December 31, 2014 compared with the same period in 2013. The increase in adjusted SG&A was due to increases in salaries and benefits of $4.8 million, commission expense of $2.7 million, travel and marketing costs of $2.5 million, rent expense of $0.5 million, professional services of $0.4 million, insurance expense of $0.3 million, other miscellaneous items of $0.3 million; and partially offset by a decrease in bad debt expense of $0.3 million. Included in the $4.8 million increase in salaries and benefits is $1.0 million in accrued bonuses for senior management in accordance with the Board-approved 2014 bonus plan. The increase in salaries and benefits and commission expense are due to the same reasons discussed above.

Adjusted EBITDA

Adjusted EBITDA increased by $9.7 million in the three months ended December 31, 2014 compared with the same period in 2013. The increase was mainly due to the $23.7 million increase in revenue, and the resulting improved adjusted gross profit percentage which grew from 38.4% to 44.4%. These amounts were partially offset by adjusted SG&A increase of $3.5 million for the reasons discussed above.

Adjusted EBITDA increased by $14.4 million in the year ended December 31, 2014 compared with the same period in 2013. The increase was mainly due to the $47.5 million increase in revenue, and the resulting improved adjusted gross profit percentage which grew from 39.5% to 42.9%. These amounts were partially offset by adjusted SG&A increase of $11.2 million for the reasons discussed above.

Finance Costs

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
		($ thousands)		
Accreted/ accrued interest (non-cash):				
Debt component of preferred shares	-	200	-	1,112
December 2012 Notes	-	491	657	2,068
June 2012 Notes	-	47	-	318
December 2012 Notes	-	351	413	1,592
Credit facilities	77	51	289	144
	77	**1,140**	**1,359**	**5,234**

Finance costs decreased by $1.0 million in the three months ended December 31, 2014 compared with the same period in 2013. In November 2013, upon completion of our IPO, Preferred Shares and the convertible notes issued in June 2012 ("June 2012 Notes") were converted into Common Shares and as a result there were no accretion or accrued interest amounts reported during 2014 related to those items. Upon completion of the IPO, we also repaid US$10.0 million of the original US$20.0 million December 2012 Notes. Under the terms of the note purchase agreement on the remaining principal portion of the December 2012 Notes, the interest rate increased from 8% to 14% (12% cash and 2% non-cash) effective March 7, 2014. The 2% non-cash portion of the interest is included with the accretion expense in the accreted / accrued interest (non-cash) section of the table above. In June 2014, in connection with the secondary offering, US$5.0 million of the then-remaining US$10.0 million December 2012 Notes, plus all accrued interest at the time of conversion were converted into Common Shares. In July 2014, we converted the remaining balance of the December 2012 Notes into Common Shares.

Finance costs decreased by $3.9 million in the year ended December 31, 2014 compared with the same period in 2013. Finance costs for the year ended December 31, 2014 were comprised of $0.7 million non-cash and $0.7 million cash costs compared with $3.5 million and $1.7 million, respectively, for the same period in 2013. The reasons for the decrease are the same as discussed above.

Income Tax Expense

Income tax expense for the three months and year ended December 31, 2014 was $0.5 million and $0.6 million compared to $1.0 million and $1.3 million, respectively, for the same periods in 2013, mainly reflecting the profitability of our US subsidiary during these periods.

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) for the Canadian and US operating segments, respectively. These losses will expire in the years 2027 to 2034.

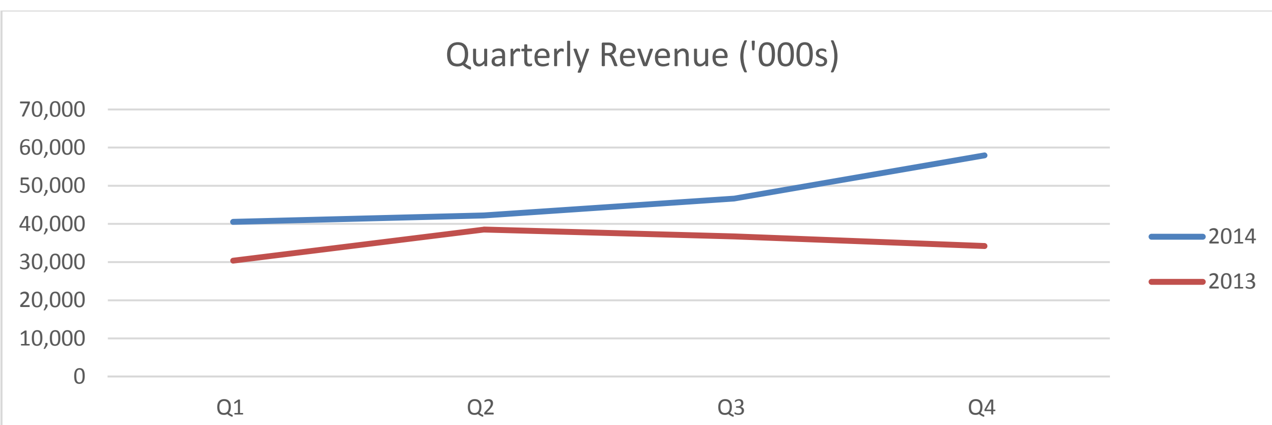
Summary of Quarterly Results

	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013	Mar. 31, 2013
	($ thousands, except per share amounts)							
Revenue	57,945	46,651	42,218	40,515	34,202	36,708	38,494	30,391
Adjusted gross profit % [(1)]	44.4%	42.3%	40.7%	43.5%	38.4%	39.4%	45.2%	33.7%
Operating income (loss)	6,580	1,301	(1,579)	998	(2,957)	(102)	1,717	(2,925)
Net income (loss)	6,553	1,526	(2,055)	(70)	(10,151)	(494)	(1,271)	(4,579)
Net income (loss) per basic share	0.09	0.02	(0.03)	(0.00)	(0.25)	(0.01)	(0.04)	(0.13)
Net income (loss) per diluted share	0.09	0.02	(0.03)	(0.00)	(0.25)	(0.01)	(0.04)	(0.13)

Note:

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

Trends



DIRTT's business typically demonstrates some seasonality. The fourth quarter and first quarter have historically shown a small slowdown of activity which corresponds with the winter months and holiday season. However, for 2014, DIRTT did not experience this trend.

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

Changes in Financial Position

The following is a discussion of changes in the consolidated statement of financial position as at December 31, 2014.

As at December 31,	2014	2013	Change ($)	Change (%)	Explanation of changes
	($ thousands)				
Current assets					
Cash and cash equivalents	39,836	34,373	5,463	16%	See "Liquidity and Capital Resources"
Trade and other receivables	28,425	17,166	11,259	66%	Reflects higher revenue during Q4 2014
Inventory	15,097	11,376	3,721	33%	Reflects higher raw materials due to anticipated production activities
Prepaids and other current assets	1,853	1,058	795	75%	Mainly due to deposits on new manufacturing equipment on order
Current liabilities					
Trade accounts payable and accrued liabilities	22,933	12,550	10,383	83%	Reflects higher manufacturing activity during Q4 2014
Customer deposits	7,271	8,370	(1,099)	(13%)	A large portion of orders on hand at the end of December 2014 did not require deposits
Current portion of long-term debt	3,516	2,419	1,097	45%	Reflects the current portion of the additional $3.8 million in capital financing facility drawn in October 2014 and strenthening of the US dollar
Provisions	814	469	345	74%	Reflects general increase in warranty accruals due to new product offerings as well as higher DP rebates accrued in December 2014
Current tax liabilities	243	314	(71)	(23%)	Reflects taxable position in our US subsidiary and an installment payment in December 2014
Working capital					
(Current assets minus Current liabilities)	50,434	39,851	10,583	27%	

As at December 31,	2014	2013	Change ($)	Change (%)	Explanation of changes
	($ thousands)				
Non-current assets					
Long-term deposits	624	522	102	20%	Reflects rent deposit on a new facility in Calgary and strengthening of the US dollar
Property, plant and equipment	35,661	29,986	5,675	19%	Reflects net additions of $10.8 million (mostly GLCs, manufacturing equipment and US manufacturing facility improvements) and foreign exchange adjustment of $1.4 million, partially offset by depreciation expense of $6.5 million
Intangible assets	11,523	10,112	1,411	14%	Reflects additions of $4.8 million (mostly capitalized salaries and benefits related to software and product development) and partially offset by amortization expense of $3.4 million
Notes receivable	465	486	(21)	(4%)	Reflects scheduled repayments during 2014
Deferred tax assets	2,099	1,967	132	7%	Reflects year to year changes in temporary differences
Goodwill	1,845	1,845	-	-	No change
Non-current liabilities					
Deferred tax liabilities	518	592	(74)	(13%)	General movement in temporary differences
Long-term debt	6,336	5,673	663	12%	Reflects additional $3.8 million in capital financing facility drawn in October 2014, partially offset by repayments which began on January 1, 2014 and strengthening of the US dollar
December 2012 Notes	-	9,904	(9,904)	(100%)	Reflects conversion of $10.4 million into common shares, offset by accretion expense of $0.5 million
Shareholders' equity					
Common share capital	143,386	123,127	20,259	16%	Reflects conversion of all of the December 2012 Notes, stock option exercises, and warrant exercises during 2014
Warrants	526	1,101	(575)	(52%)	Reflects warrant exercises during 2014
Equity component of December 2012 Notes	-	57	(57)	(100%)	Reflects conversion of all of the December 2012 Notes during 2014
Contributed surplus	5,440	6,192	(752)	(12%)	Primarily due to stock option exercises during 2014 partially offset by stock-based compensation expense
Accumulated other comprehensive income	3,661	1,293	2,368	183%	Reflects the strengthening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(57,216)	(63,170)	5,954	(9%)	Net income from 2014

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Consolidated statements of cash flows

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
		($ thousands)		
Cash flows provided by (used in) operating activities before changes in non-cash working capital [(1)]	9,858	(4,657)	20,037	1,042
Changes in non-cash working capital	3,505	4,327	(6,248)	(2,028)
Net cash flows provided by (used in) operating activities	13,363	(330)	13,789	(986)
Less:				
Net cash flows used in investing activities	(4,914)	(1,482)	(15,549)	(7,002)
Net cash flows provided by financing activities	6,388	32,314	7,223	33,535
Increase in cash and cash equivalents	14,837	30,502	5,463	25,547
Cash and cash equivalents, beginning of period	24,999	3,871	34,373	8,826
Cash and cash equivalents, end of period	**39,836**	**34,373**	**39,836**	**34,373**

Note:

(1) See "Non-IFRS Measures".

At December 31, 2014, we had $39.8 million in cash and cash equivalents compared with $34.4 million at December 31, 2013. At December 31, 2014, we had an undrawn US$18.0 million revolving credit facility. In October 2014, an additional $3.8 million was advanced to DIRTT under a US$5.0 million capital financing facility, with a remaining balance of US$1.6 million as at December 31, 2014.

Looking forward to 2015, we expect to make continued investments in product and software development to further expand our product offerings, as well as in certain manufacturing equipment to support this development. We also expect to further invest in our existing GLCs to ensure that each location is showcasing the latest DIRTT Solutions. We will commence the construction of our new GLC in London, England, to better serve and support the significant market in the Middle East and Europe.

We believe our current cash on hand, available credit facilities, and cash flow from operations will provide sufficient liquidity to meet our working capital requirements as well as our financial obligations. In addition, we usually receive a 50% deposit on eligible orders which also provides additional up-front working capital. We do not require deposits on US government orders or special contractual situations. Historically, we do not see a strong correlation between the customer deposits balance at the end of the period and the following period's revenue.

Net cash flows provided by (used in) operating activities

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
		($ thousands)		
Net income (loss) for the period	6,553	(10,151)	5,954	(16,495)
Items not affecting cash:		-		
Depreciation included in cost of goods sold	666	520	2,236	1,936
Depreciation and amortization included in SG&A	1,347	1,708	7,650	6,322
Stock-based compensation	628	54	1,398	395
Loss on derecognition of liability	-	832	307	832
Write-off of property, plant and equipment	-	-	-	192
Loss (gain) on sale of property, plant and equipment	3	-	(17)	-
Income tax provision	504	963	637	1,296
Finance cost	77	1,140	1,359	5,234
Non-cash foreign exchange loss	630	658	1,297	1,711
Net change in non-cash working capital	3,505	4,327	(6,248)	(2,028)
Cash taxes paid	(550)	(381)	(784)	(381)
Net cash flows from (used in) operating activities	**13,363**	**(330)**	**13,789**	**(986)**

Net cash flows provided by operating activities increased by $13.7 million for the three months ended December 31, 2014 compared with the same period in 2013. The increase was mainly comprised of the following:

- Operating income increased by $9.5 million in the three months ended December 31, 2014 compared with the same period in 2013; and
- The 2014 period did not have $0.8 million in IPO transaction costs and $3.7 million in debt settlement expense in connection with the 50% repayment of the December 2012 Notes that occurred in 2013.

Net cash flows provided by operating activities increased by $14.8 million for the year ended December 31, 2014 compared with the same period in 2013. The increase was mainly comprised of the following:

- Operating income increased by $11.6 million in the year ended December 31, 2014 compared with the same period in 2013; and
- The 2014 period did not have $3.7 million in debt settlement expense in connection with the 50% repayment of the December 2012 Notes that occurred in 2013.

Net cash flows used in investing activities

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
		($ thousands)		
Purchase of property, plant and equipment	(4,186)	(829)	(10,812)	(3,066)
Capital expenditures on internally generated intangible assets	(727)	(667)	(4,798)	(3,953)
Proceeds from sale of property, plant and equipment	(6)	9	40	9
Receipt of proceeds from notes receivable	5	6	21	8
Net cash flows used in investing activities	**(4,914)**	**(1,481)**	**(15,549)**	**(7,002)**

Net cash flows used in investing activities for the three months ended December 31, 2014 increased by $3.4 million compared with the same period in 2013. Net cash flows used in investing activities for the year ended December 31, 2014 increased by $8.5 million compared with the same period in 2013. The majority of the increase relates to investment in new manufacturing equipment and our company-owned GLCs. In addition, we also invested in the first phase of leasehold improvements to our manufacturing facility in Savannah, Georgia designed to improve its functionality in the sales and marketing process. We also continue to invest in product and software development and our ongoing commitment to further enhance and expand our solutions such as our recently released offering, the Enzo Approach.

Net cash flows provided by financing activities

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
		($ thousands)		
Issuance of share capital on IPO	-	45,000	-	45,000
Share capital issuance costs	-	(4,448)	-	(4,448)
Issuance of share capital on exercise of stock options	3,050	5	5,725	18
Issuance of share capital on exercise of warrants	249	-	863	-
Repayment of convertible notes	-	(10,451)	-	(10,451)
Interest paid on convertible notes	-	(351)	(413)	(1,592)
Proceeds of long-term debt	3,785	2,659	3,785	5,891
Repayment of long-term debt	(619)	(49)	(2,448)	(739)
Interest paid on long-term debt	(77)	(51)	(289)	(144)
Net cash flows from financing activities	**6,388**	**32,314**	**7,223**	**33,535**

Net cash flows provided by financing activities for the three months ended December 31, 2014 decreased by $25.9 million compared with the same period in 2013. Notable transactions included the following:

- During the 2014 period, we received proceeds of $3.3 million from the exercise of stock options and warrants;
- During the 2014 period, we borrowed $3.8 million against the capital financing facility;
- During the 2014 period, we paid down $0.6 million of debt under our credit facilities;
- During the 2013 period, the IPO resulted in net proceeds of $40.6 million. We used $10.5 million of the proceeds to pay down 50% of the December 2012 Notes; and
- During the 2013 period, we borrowed $2.7 million against the term facility.

Net cash flows provided by financing activities for the year ended December 31, 2014 decreased by $26.3 million compared with the same period in 2013. Notable transactions included the following:

- During the 2014 period, we received proceeds of $6.6 million from the exercise of stock options and warrants;
- During the 2014 period, we borrowed $3.8 million against the capital financing facility;
- During the 2014 period, we paid down $2.4 million of debt under our credit facilities;
- During the 2013 period, the IPO resulted in net proceeds of $40.6 million. We used $10.5 million of the proceeds to pay down 50% of the December 2012 Notes; and
- During the 2013 period, we borrowed $3.2 million against the capital credit facility and $2.7 million against the term facility.

NON-IFRS MEASURES

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

Adjusted gross profit and adjusted gross profit %

Adjusted gross profit is defined as gross profit before the deduction of the depreciation of equipment and tooling for manufacturing-related assets that is included in cost of goods sold. Adjusted gross profit % is calculated as adjusted gross profit divided by revenue. We use this measure as an indicator of cash generated from the production of goods and services that we sell. As manufacturing volumes and revenue rise, production synergies permit greater improvements in gross profit.

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

	Three months ended December 31,		Year ended December 31,	
	2014	**2013**	**2014**	**2013**
		($ thousands)		
Revenue	57,945	34,202	187,329	139,795
Cost of goods sold	32,895	21,599	109,286	86,499
Gross profit	**25,050**	**12,603**	**78,043**	**53,296**
Gross profit %	**43.2%**	**36.8%**	**41.7%**	**38.1%**
Add back:				
Depreciation included in cost of goods sold	666	520	2,236	1,936
Adjusted gross profit	**25,716**	**13,123**	**80,279**	**55,232**
Adjusted gross profit %	**44.4%**	**38.4%**	**42.9%**	**39.5%**

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

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

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

	Three months ended December		Year ended December 31,	
	2014	**2013**	**2014**	**2013**
		($ thousands)		
Revenue	57,945	34,202	187,329	139,795
SG&A	18,470	14,724	70,235	56,727
Less: Depreciation included in SG&A	(1,347)	(1,708)	(7,650)	(6,322)
Less: Stock-based compensation expense included in SG&A	(628)	(54)	(1,398)	(395)
Adjusted SG&A	**16,495**	**12,962**	**61,187**	**50,010**
Adjusted SG&A as a % of revenue	**28.5%**	**37.9%**	**32.7%**	**35.8%**

EBITDA and Adjusted EBITDA

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

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

	Three months ended December 31,		Year ended December 31,	
	2014	**2013**	**2014**	**2013**
		($ thousands)		
Net income (loss) for the period	6,553	(10,151)	5,954	(16,495)
Add back (deduct):				
Finance costs	77	1,140	1,359	5,234
Interest income	(110)	(7)	(291)	(10)
Income tax expense	504	963	637	1,296
Depreciation included in cost of goods sold	666	520	2,236	1,936
Depreciation and amortization included in SG&A	1,347	1,708	7,650	6,322
EBITDA	**9,037**	**(5,827)**	**17,545**	**(1,717)**
Stock-based compensation	628	54	1,398	395
Loss on derecognition of liability	-	832	307	832
Debt settlement expense	-	3,728	-	3,728
Loss (gain) on sale of property, plant and equipment	3	-	(17)	-
Write-off of property, plant and equipment	-	-	-	192
IPO and secondary offering transaction costs	-	836	508	836
Non-cash foreign exchange loss on debt revaluation	125	459	175	1,259
Adjusted EBITDA	**9,793**	**82**	**19,916**	**5,525**

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

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

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

	Three months ended December 31,		Year ended December 31,	
	2014	**2013**	**2014**	**2013**
		($ thousands)		
Net cash flows provided by (used in) operating activities	13,363	(330)	13,789	(986)
Changes in non-cash working capital	(3,505)	(4,327)	6,248	2,028
Net cash flows provided by (used in) operating activities before changes in non-cash working capital	**9,858**	**(4,657)**	**20,037**	**1,042**

CAPITAL RESOURCES AND MANAGEMENT

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

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

As a young growth company, to date, issuance of equity has been our primary source of capital. The IPO provided us with net proceeds of $39.8 million. However, additional debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. In order to maintain or adjust the capital structure, we may return capital to shareholders, issue new shares, take on additional debt or sell assets to reduce debt.

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

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

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

At December 31, 2013	
Fixed Charge Coverage Ratio (1)	minimum 1.00:1
Leverage Ratio (1)	maximum 3.50:1
Minimum Tangible Net Worth	44,000,000

Note:

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

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at December 31, 2014:

	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
			($ thousands)		
Operating lease	19,297	3,604	7,141	5,428	3,124
Trade accounts payable and accrued liabilities	22,933	22,933	-	-	-
Customer deposits	7,271	7,271	-	-	-
Interest obligations from current portion of long-term de	297	297	-	-	-
Principal repayments from current portion of long-term	3,516	3,516	-	-	-
Interest obligations from long-term debt	326	-	272	54	-
Principal repayments from long-term debt	6,336	-	4,163	2,173	-
Purchase obligations	885	885	-	-	-
	60,861	**38,506**	**11,576**	**7,655**	**3,124**

Contingent Liabilities

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

OUTSTANDING SHARE DATA

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

As at	March 4, 2015	December 31, 2014
Common shares	76,773,278	76,596,548
Stock options [1]	4,566,937	4,620,817
Convertible note warrants [1]	605,263	605,263
Broker warrants - Series A [1]	313,450	313,450
Broker warrants - Series B [1]	-	130,500
Other warrants [1]	100,000	100,000
Total	82,358,928	82,366,578

Note:

[1] Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At December 31, 2014, notes receivable of $0.5 million (December 31, 2013 - $0.5 million) remain outstanding from Mogens Smed ("Mr. Smed"), a shareholder, officer and a director of DIRTT. The notes receivable bear interest at 5% with monthly payments of $3,750, including interest, commencing in August 2013, and are secured by a pledge of 250,000 Common Shares held by Mr. Smed. The notes receivable were advanced to Mr. Smed to enable him to meet certain personal financial obligations after he, at the request of DIRTT, agreed to be issued Common Shares rather than cash on maturity of $0.5 million principal amount of convertible debentures issued to Mr. Smed on February 1, 2005. The $0.5 million advanced to DIRTT by Mr. Smed, and evidenced by the convertible debentures, was used by us to meet certain financial obligations.

During the 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables and notes receivable. The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies. Our credit risk is primarily concentrated in our trade receivables. The amounts disclosed in the consolidated statement of financial position are net of allowances for doubtful accounts, estimated by management based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce our risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad customer base which is geographically dispersed. We do not have significant exposure to any individual customer. A number of factors are considered in determining the likelihood of impairment. We also have a contract with Export Development Canada (“EDC”), Canada’s export credit agency, whereby some of our trade receivables are insured. EDC determines the coverage amount, if any, on a customer-by-customer basis. Based on our trade receivables balance as at 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, we believe that our exposure to credit risk is limited.

Liquidity risk

Our objective is to maintain sufficient cash and to ensure we have sufficient authorized credit facilities as financing sources to reduce liquidity risk. We had unused credit facilities of US$18.0 million as at December 31, 2014 and December 31, 2013. We also had US$1.6 million remaining from our capital financing facility as at December 31, 2014 (2013 - $nil). We monitor our cash balances and cash flows generated from operations to meet our requirements. Our financial liabilities include trade accounts payable and accrued liabilities, customer deposits, and long-term debt. The ability to pay our obligations relies on the collection of our trade receivables in a timely manner. We believe our cash and cash equivalents on hand, cash flows generated from operations, and our available credit facilities will together provide sufficient funding to meet our obligations.

Market risk

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

Interest rate risk

Certain of our financial liabilities are subject to interest charges at floating rates, and are exposed to fluctuations in interest rates. At 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.

Foreign exchange risk

We are mainly exposed to fluctuations between the US dollar and the Canadian dollar, DIRTT's reporting currency. A portion of our revenue and operating costs are realized in US dollars. In addition, some of our monetary assets, such as cash and cash equivalents, trade receivables and inventory; and monetary liabilities, such as trade accounts payable and accrued liabilities, customer deposits, and long-term debt are denominated in US dollars. As a result, we are exposed to currency risk from the translation of these transactions and balances at each reporting period. Our objective in managing currency risk is to minimize our exposure to the US dollar. A significant weakening of the US dollar against the Canadian dollar could result in a revaluation of inventory. This risk is mitigated by the fact that our business does not require us to carry high levels of inventory. Quick turnover of inventory minimizes the effect of any such changes in exchange rates. As at December 31, 2014 and December 31, 2013, we held no US dollar forward foreign exchange contracts. We purchase a large portion of our inventory in US dollars. For the year ended December 31, 2014, with a 2.5% change in the US dollar (for obligations that would be retired in six months or less) and a 10% change in the US dollar (for obligations that would be retired in greater than six months), the impact to the net income (loss) and comprehensive income (loss) would be a decrease/increase of $0.2 million (2013 - $0.9 million).

Commodity price risk

In our business, we consume raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, paint and powder, and fabric and vinyl. Aluminum represents the largest component of our raw materials consumption. Generally, our aluminum inventory is low as we have a fast turnaround time for the majority of our projects. This is a low risk to DIRTT but aluminum prices can fluctuate and represents approximately 18% of our overall cost of goods sold.

Fair value of financial instruments

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

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets and liabilities. Level 1 financial instruments include cash and cash equivalents.
- Level 2 financial instruments are those which can be derived from inputs that are observable for the financial asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 financial instruments include trade and other receivables, notes receivable, trade accounts payable and accrued liabilities, customer deposits, current and long-term debt, and convertible notes.

- Level 3 financial instruments are those which can be derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market rate (unobservable inputs). The Company does not have any Level 3 financial instruments.
- Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risk. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The fair values of our financial instruments were determined as follows:
  (i) The carrying amounts of cash and cash equivalents, trade and other receivables, trade accounts payable and accrued liabilities, and customer deposits approximate fair value due to their short-term nature;
  (ii) The carrying amount of notes receivable approximates fair value as they bear interest at a market rate, and have reasonable repayment terms;
  (iii) The current and long-term debts are carried at amortized cost. The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to us for similar financial instruments subject to similar risks and maturities. The carrying amounts of these instruments approximates fair value due to their respective floating interest rates;
  (iv) The fair values of the debt component of the convertible notes are determined using discounted cash flow analyses, whereby the contractual payments are discounted at a discount rate reflective of market rates for instruments held by us with similar terms and periods to maturity. The carrying amounts of these instruments approximates fair value.

OUTLOOK

Construction is a major global industry and consists of building new structures, making additions and modifications to existing structures, as well as conducting maintenance, repair and leasehold improvements on existing structures. The total US construction market was US$961 billion in 2014, of which US$606 billion was attributable to non-residential building [*Source: US Census Bureau*]. This includes both new building and renovation projects. Total US non-residential construction spending is forecasted to grow to US$723 billion in 2018 *[Source: FMI US Markets Construction Overview 2015].* We believe conventional construction activities are fraught with challenges including cost overruns, quality issues and time delays and increasingly organizations are looking for a better way to build out their interior spaces, whether for new buildings or renovations. Our increasing roster of repeat clients is a strong testament to the benefits of technology-enabled prefabricated solutions.

Our growth strategy consists of four key initiatives: (1) increasing penetration of existing markets by providing continued support and increased investment to our existing DPs throughout North America; (2) expanding into new geographies by capitalizing on recent and continued investment alongside new international DPs such as the Middle East and Singapore; (3) penetrating new industries such as the hospitality and residential sectors; and (4) continuing to invest in ICE and new innovative interior construction solutions such as the Enzo Approach.

We believe DIRTT Solutions are a superior alternative to conventional construction in all sectors of the construction industry, and that a continued increase in construction activity can be expected to result in an ongoing improvement in our revenue. We plan to invest additional resources, including continued development of ICE and the development of new DIRTT Solutions and test projects, to pursue further opportunities in healthcare, education and government, and new opportunities in the hospitality and residential sectors of the construction industry. Our product development team has been and, we expect, will continue to be expanded to address industry-specific challenges and opportunities.

The American Institute of Architects' ("AIA") Architecture Billings Index ("ABI") can be a useful leading economic indicator of how non-residential billing activity could trend over the next nine to 12 months. The most recent January billing numbers showed a modest decrease to just below 50, following an extended growth trend following poor weather in the first quarter of 2014. Billing activity was especially strong in the

South, essentially flat in the Midwest and West and down in the Northeast, likely on the back of severe weather conditions seen early in 2015. Both we and the AIA believe these numbers point to some moderation of activity based on poor weather but that the general positive trend over the last few quarters in 2014 is likely to return on the back of continued solid industry fundamentals. This could result in a more modest first quarter in 2015 on a sequential basis over what was a very strong fourth quarter in 2014 for DIRTT.

DIRTT does anticipate seeing a relatively regular contribution through the majority of 2015 from the gross US$30.0 million contract announced in mid-2014 that began delivery late last year.

USE OF PROCEEDS

We received net proceeds of $39.8 million from the IPO. The following table compares the intended use of the net proceeds with the actual expenditures as at December 31, 2014, by which time the net proceeds from the IPO were partially expended.

(in thousands)	Estimated per Prospectus	Actual spending up to December 31, 2014	Future estimated spending
Product development	$ 7,960	$ 5,639	$ 2,321
New sales and business development initiatives	3,980	4,457	-
ICE software development	2,388	3,403	-
Pre-payment of US$10.0 million December 2012 Notes	14,300	14,300	-
	28,628	27,799	2,321
Working capital purposes - including temporary investments	11,172	12,001	(2,321)
Total (Estimated/Actual)	$ 39,800	$ 39,800	$ -

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Cash generating units

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

Impairment of non-financial assets

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

Share-based transactions

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

Income taxes

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

Useful lives of property, plant and equipment and intangible assets

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

Segment reporting

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

Allowance for doubtful accounts

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

Fair value estimates of financial liabilities

The determination of the fair value of the convertible notes requires management to make estimates regarding the interest rate that we 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.

Distribution Partner rebates

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

Warranties

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

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. 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.

ADOPTION OF NEW AND REVISED IFRS

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

In December 2013, the International Accounting Standards Board ("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.

International Accounting Standards ("IAS") 32, "Financial Instruments: Presentation" was amended by the IASB in December 2011 and is effective for annual periods beginning on or after January 1, 2014, with retrospective application required. The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

IAS 36, "Impairment of Assets" was amended by the IASB in May 2013 and is effective for annual periods beginning on or after January 1, 2014. The overall effect of the amendments to IAS 36 is to reduce the circumstances in which the recoverable amount of assets or cash generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

IAS 39, "Financial Instruments: Recognition and Measurement" was amended by the IASB in June 2013 and is effective for annual periods beginning on or after January 1, 2014, with earlier application being permitted. The objective of the amendments is to avoid any impact on an entity's hedge accounting from derecognizing the derivative, following its novation. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties.

In May 2013, the IASB issued IFRS Interpretations Committee ("IFRIC ") 21, "Levies", an interpretation on the accounting for levies imposed by governments. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets". The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

In May 2014, the IASB and the US Financial Accounting Standards Board issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", which replaces all existing IFRS and US GAAP revenue requirements. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted under IFRS. The Company is currently assessing the impact of this standard.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of the Company's internal control procedures, the CEO and CFO have concluded that the internal controls and procedures were appropriately designed and operated as at December 31, 2014. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework (1992)", issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There were no changes to the Company's internal controls over financial reporting during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

DISCLOSURE CONTROLS

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's CEO and CFO have each evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at December 31, 2014 and have concluded that these controls and procedures were appropriately designed and operated effectively.

RISK AND UNCERTAINTIES

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

Maintaining and managing growth

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

History of losses

We have incurred significant losses since our inception and have only been profitable for the years ended December 31, 2014, September 30, 2010 and September 30, 2009. Recently, we have incurred net losses of $16.5 million for the year ended December 31, 2013; $7.1 million for the 15 months ended December 31, 2012 and $4.8 million for the year ended September 30, 2011. As at December 31, 2014, we had an accumulated deficit of $57.2 million. These losses and accumulated deficit were due in part to the substantial investments made to grow our business and acquire customers, to further develop our service offerings through product and software development, and to ensure we have sufficient production capacity and capability to deliver on our commitment of rapid delivery times. We expect our operating expenses to increase in the future due to an expected increase in sales and marketing expenses; higher product development costs and general and administrative costs and, therefore, losses could continue for the foreseeable future. Readers should not consider our revenue growth as indicative of our future performance. There can be no assurance that we will achieve and/or sustain profitability in the future.

New technology

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

Competition

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

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

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

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

- the development of new competitive products or processes by others;
- the entry of new competitors into our market whether by established companies or by new companies;
- changes in the size and complexity of our organization, including our international operations;
- levels of sales of our products and services to new and existing customers;
- the geographic distribution of our sales;
- changes in customer preferences or needs;
- changes in the amount that we invest to develop, acquire or license new products and processes, which we anticipate will generally increase and may fluctuate in the future;

- delays between our expenditures to develop, acquire or license new products and processes, and the generation of sales related thereto;
- our ability to timely and effectively scale our business during periods of sequential quarterly or annual growth;
- limitations or delays in our ability to reduce our expenses during periods of declining sequential quarterly or annual revenue;
- changes in our pricing policies or those of our competitors, including our responses to price competition;
- changes in the amount we spend in our marketing and other efforts;
- unexpected increases in expenses as compared to our related accounting accruals or operating plan;
- the volatile global economy;
- fluctuations in the US dollar against the Canadian dollar;
- general economic and industry conditions that affect customer demand and product development trends; and
- changes in accounting rules and tax and other laws.

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

Intellectual property

Our success will depend in part on our ability to obtain patents, maintain trade secrets and protect unpatented expertise, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent our rights. We rely on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures, and other measures to protect our proprietary information. As of December 31, 2014, DIRTT and Ice Edge have 97 patents granted and 143 patents pending with numerous new patent applications being finalized. There can be no assurance that the steps taken will prevent misappropriation of our proprietary rights. Our competitors could also independently develop technology similar to our technology. Although we do not believe that our software or products infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us, or that any such assertions or prosecutions will not adversely affect our business, financial condition, or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources with respect to the defence thereof, which could have an adverse effect on our business.

Additional capital requirements

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

Customer base and market acceptance

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

Software and product defects and design risks

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

Availability of key supplies

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

Dependence on key personnel

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

Commodity price risk

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

Credit risk

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

Government regulation

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

International expansion

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

- our ability to comply with differing technical and certification requirements outside of the US and Canada;
- difficulties and costs associated with staffing and managing foreign operations;
- difficulties in integrating foreign operations and maintaining an enterprise-wide consistent corporate culture;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- unexpected changes in regulatory requirements;
- the need to adapt the ICE Software and products for specific countries and languages;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;

- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- restrictions on the transfer of funds; and
- new and different sources of competition.

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

Physical facilities

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

Legal risks

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

Foreign currency and fiscal matters

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

Future acquisitions

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

Reliance on third parties

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

Conflicts of interest

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