DIRTT Environmental Solutions Ltd.

Unaudited Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

INDEX

Condensed Consolidated Statements of Financial Position

(Unaudited - Stated in thousands of Canadian dollars)

As at		June 30, 2015	December 31, 2014
	Notes	$	$
ASSETS			
Current Assets			
Cash and cash equivalents		92,666	39,836
Trade and other receivables		17,339	28,425
Inventory		15,765	15,097
Prepaids and other current assets		1,810	1,853
		127,580	**85,211**
Non-current Assets			
Long-term deposits		669	624
Property, plant and equipment		41,273	35,661
Intangible assets		13,218	11,523
Note receivable	8	454	465
Deferred tax assets		2,390	2,099
Goodwill		1,845	1,845
Total Assets		**187,429**	**137,428**
LIABILITIES			
Current Liabilities			
Trade accounts payable and accrued liabilities		19,471	22,933
Customer deposits		6,917	7,271
Current portion of long-term debt	3	4,685	3,516
Provisions		783	814
Current tax liabilities		45	243
		31,901	**34,777**
Non-current Liabilities			
Deferred tax liabilities		1,062	518
Long-term debt	3	6,158	6,336
Total Liabilities		**39,121**	**41,631**
SHAREHOLDERS' EQUITY			
Common share capital	4	189,979	143,386
Warrants		37	526
Contributed surplus		5,826	5,440
Accumulated other comprehensive income		6,363	3,661
Accumulated deficit		(53,897)	(57,216)
		148,308	**95,797**
Total Liabilities and Shareholders' Equity		**187,429**	**137,428**
Commitments	11		

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

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

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

		For the three months ended June 30,		For the six months ended June 30,	
		2015	**2014**	**2015**	**2014**
	Notes	$	$	$	$
Revenue		52,866	42,218	109,567	82,733
Cost of goods sold		31,453	25,460	64,353	48,885
Gross profit		**21,413**	**16,758**	**45,214**	**33,848**
Expenses					
Selling, general and administrative		22,544	17,826	42,615	33,918
Transaction costs		-	511	-	511
		22,544	**18,337**	**42,615**	**34,429**
Operating (loss) income		**(1,131)**	**(1,579)**	**2,599**	**(581)**
Other (income) expenses					
Foreign exchange (gain) loss		(2)	29	(1,215)	257
Gain on sale of property, plant and equipment		-	(18)	-	(18)
Loss on derecognition of liability		-	153	-	153
Interest income		(118)	(57)	(177)	(127)
Finance costs		107	584	205	1,200
		(13)	**691**	**(1,187)**	**1,465**
(Loss) income before tax		**(1,118)**	**(2,270)**	**3,786**	**(2,046)**
Income taxes					
Current tax expense		8	232	52	544
Deferred tax expense (recovery)		237	(447)	415	(465)
		245	**(215)**	**467**	**79**
Net (loss) income for the period		**(1,363)**	**(2,055)**	**3,319**	**(2,125)**
Other comprehensive (loss) income					
Items that will be reclassified to profit or loss:					
Exchange differences on translation of foreign operations		(316)	(907)	2,702	123
Comprehensive (loss) income for the period		**(1,679)**	**(2,962)**	**6,021**	**(2,002)**
(Loss) income per share					
Basic and diluted		(0.02)	(0.03)	0.04	(0.03)
Weighted average number of shares outstanding					
Basic	6	79,725,135	69,364,446	78,268,013	69,129,558
Diluted	6	79,725,135	69,364,446	80,401,165	69,129,558

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

Condensed Consolidated Statements of Changes in Equity

(Unaudited - Stated in thousands of Canadian dollars)

	Common share capital	Warrants	Equity component of convertible notes	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total equity
	$	$	$	$	$	$	$
As at December 31, 2013	**123,127**	**1,101**	**57**	**6,192**	**1,293**	**(63,170)**	**68,600**
Net loss for the period	-	-	-	-	-	(2,125)	(2,125)
Other comprehensive income for the period	-	-	-	-	123	-	123
Conversion of convertible notes to common shares	5,529	-	(29)	-	-	-	5,500
Stock-based compensation	-	-	-	103	-	-	103
Issued on exercise of stock options	1,153	-	-	(392)	-	-	761
As at June 30, 2014	**129,809**	**1,101**	**28**	**5,903**	**1,416**	**(65,295)**	**72,962**
As at December 31, 2014	**143,386**	**526**	**-**	**5,440**	**3,661**	**(57,216)**	**95,797**
Net income for the period	-	-	-	-	-	3,319	3,319
Other comprehensive income for the period	-	-	-	-	2,702	-	2,702
Issued upon completion of bought deal offering	43,211	-	-	-	-	-	43,211
Share capital issuance costs	(2,598)	-	-	-	-	-	(2,598)
Stock-based compensation	-	-	-	1,243	-	-	1,243
Issued on exercise of stock options	2,949	-	-	(857)	-	-	2,092
Issued on exercise of warrants	3,031	(489)	-	-	-	-	2,542
As at June 30, 2015	**189,979**	**37**	**-**	**5,826**	**6,363**	**(53,897)**	**148,308**

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

Condensed Consolidated Statements of Cash Flows

(Unaudited - Stated in thousands of Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Cash flows from operating activities:				
Net (loss) income for the period	(1,363)	(2,055)	3,319	(2,125)
Adjustments:				
Depreciation included in cost of goods sold	812	442	1,522	975
Depreciation and amortization included in selling, general and administrative	2,121	2,137	4,135	4,089
Stock-based compensation	614	56	1,243	103
Loss on derecognition of liability	-	153	-	153
Gain on sale of property, plant and equipment	-	(18)	-	(18)
Finance costs	107	584	205	1,200
Income tax provision	245	(215)	467	79
Non-cash foreign exchange (gain) loss on debt revaluation	(94)	(389)	299	24
Non-cash foreign exchange (gain) loss	(119)	(393)	1,390	46
Net change in non-cash working capital relating to operating activities	10,612	353	6,569	(4,545)
Cash taxes paid	(102)	(72)	(230)	(229)
Net cash flows provided by (used in) operating activities	**12,833**	**583**	**18,919**	**(248)**
Cash flows from investing activities:				
Purchase of property, plant and equipment	(5,952)	(3,127)	(8,097)	(4,174)
Capital expenditures on internally generated intangible assets	(1,252)	(1,267)	(3,507)	(2,602)
Other	8	27	13	32
Net cash flows used in investing activities	**(7,196)**	**(4,367)**	**(11,591)**	**(6,744)**
Cash flows from financing activities:				
Issuance of share capital on bought deal offering	43,211	-	43,211	-
Share capital issuance costs	(2,598)	-	(2,598)	-
Issuance of share capital on exercise of stock options	1,048	664	2,092	761
Issuance of share capital on exercise of warrants	1,625	-	2,542	-
Interest paid on convertible notes	-	(161)	-	(413)
Proceeds of long-term debt	-	-	2,079	-
Repayment of long-term debt	(979)	(607)	(1,619)	(1,218)
Interest paid on long-term debt	(107)	(70)	(205)	(147)
Net cash flows provided by (used in) financing activities	**42,200**	**(174)**	**45,502**	**(1,017)**
Net increase (decrease) in cash and cash equivalents	47,837	(3,958)	52,830	(8,009)
Cash and cash equivalents, beginning of period	44,829	30,322	39,836	34,373
Cash and cash equivalents, end of period	**92,666**	**26,364**	**92,666**	**26,364**
Cash and cash equivalents consists of:				
Cash	11,533	3,209	11,533	3,209
Short-term investments	81,133	23,155	81,133	23,155
	92,666	**26,364**	**92,666**	**26,364**

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

Notes to the Condensed Consolidated Financial Statements

June 30, 2015 (Unaudited)

1. GENERAL INFORMATION

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

ICE is also licensed to unrelated companies and DPs through ICE Edge.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed, and should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31, 2014.

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

Basis of measurement

These condensed consolidated financial statements have been prepared using the same policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2014.

3. LONG-TERM DEBT

As at	June 30, 2015	December 31, 2014
	($ thousands)	
Capital financing facility, secured by a charge on all assets including manufacturing equipment, with 30 monthly payments of $143 plus interest at floating rates, which is based on the lender's Canadian prime rate plus 0.5% and 30 monthly payments of US$18 plus interest at floating rates, which is based on the lender's US prime rate plus 0.5%.	1,991	2,957
Capital financing facility, secured by a charge on all assets including manufacturing equipment, with 36 monthly payments of US$139 plus interest at floating rates, which is based on the lender's US prime rate plus 0.5%. Principal payments began in May 2015.	5,898	3,896
Term loan, secured by a charge on all assets including manufacturing equipment, with 60 monthly payments of US$21 plus interest at floating rates, which is based on the lender's US prime rate plus 0.5%.	2,654	2,610
Finance lease, secured by a charge on specific manufacturing equipment, with 60 monthly payments of US$17 including interest.	300	384
Finance lease, secured by a charge on specific manufacturing equipment, with 36 monthly payments of US$1 including interest. Final payment occurred in March 2015.	-	5
	10,843	9,852
Less: Current portion of long-term debt	(4,685)	(3,516)
Long-term debt	6,158	6,336

In March 2015, the Company drew down the remaining US$1.6 million of the US$5.0 million capital financing facility.

4. SHAREHOLDERS’ CAPITAL

Common Shares

($ in thousands, except share amounts)	Number of shares	Amount $
At December 31, 2014	**76,596,548**	**143,386**
Issued on completion of bought deal offering	5,175,000	43,211
Share issuance costs	-	(2,598)
Issued on exercise of convertible notes warrants	605,263	1,472
Issued on exercise of Series A broker warrants	313,450	1,097
Issued on exercise of Series B broker warrants	130,500	462
Issued on exercise of stock options	894,956	2,949
At June 30, 2015	**83,715,717**	**189,979**

Upon completion of a bought deal offering on June 4, 2015, the Company issued 5,175,000 common shares at $8.35 per share for gross proceeds of $43.2 million ($40.6 million, net). Total transaction costs incurred on this transaction were $2.6 million. Transaction costs consisted of underwriters’ commission and fees, audit, legal, filing, French translation and printing fees.

Warrants – Convertible Notes

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2014	**605,263**	**419**
Issued	-	-
Exercised	(605,263)	(419)
At June 30, 2015	**-**	**-**

Broker Warrants – Series A

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2014	**313,450**	**-**
Issued	-	-
Exercised	(313,450)	-
At June 30, 2015	**-**	**-**

4. SHAREHOLDERS' CAPITAL (CONTINUED)

Broker Warrants – Series B

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2014	**130,500**	**71**
Issued	-	-
Exercised	(130,500)	(71)
At June 30, 2015	**-**	**-**

Warrants – Intangibles Purchase

($ in thousands, except share amounts)	Number of warrants	Amount $
At December 31, 2014	**100,000**	**37**
Issued	-	-
Exercised	-	-
At June 30, 2015	**100,000**	**37**

5. SHARE-BASED TRANSACTIONS

The Company has a stock option plan which is approved by the Board of Directors whereby the aggregate number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares as at the time of grant of any options. Options granted under the plan generally have a term of five years and vest 1/3 every year over a three-year period from the date of grant. For the six months ended June 30, 2015, nil options were granted and 0.9 million options were exercised. For the six months ended June 30, 2014, 2.7 million options were granted at an exercise price of $3.56 and 0.4 million options were exercised.

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

	Number of options	Weighted average exercise price $
Outstanding at December 31, 2014	**4,620,817**	**2.92**
Granted	-	-
Exercised	(894,956)	2.34
Forfeited	(52,502)	3.40
Expired	-	-
Outstanding at June 30, 2015	**3,673,359**	**3.05**
Exercisable at June 30, 2015	**1,947,138**	**2.60**

5. SHARE-BASED TRANSACTIONS (CONTINUED)

Range of exercise prices outstanding at June 30, 2015:

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual years	Weighted average exercise price $	Number exercisable	Weighted average remaining contractual years	Weighted average exercise price $
$1.00 - $1.99	708,975	1.9	1.50	708,975	1.9	1.50
$2.00 - $2.99	498,884	1.2	2.60	416,622	0.7	2.54
$3.00 - $4.00	2,465,500	4.0	3.59	821,541	4.0	3.59
Total	**3,673,359**			**1,947,138**		

6. BASIC AND DILUTED (LOSS) INCOME PER SHARE

The calculation of basic and diluted (loss) income per share for the three and six months ended June 30, 2015 was based on the net loss of $1.4 million and net income of $3.3 million, respectively (June 30, 2014 – net loss of $2.1 million and net loss of $2.1 million, respectively), and a weighted average number of common shares outstanding of 79,725,135 and 78,268,013, respectively (June 30, 2014 – 69,364,446 and 69,129,558, respectively).

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Weighted average shares outstanding	79,725,135	69,364,446	78,268,013	69,129,558
Stock options	-	-	1,897,575	-
Convertible warrants	-	-	235,577	-
Diluted shares outstanding	79,725,135	69,364,446	80,401,165	69,129,558

For the six months ended June 30, 2015, all convertible securities were included in the diluted weighted average number of common shares calculation as none were anti-dilutive. As the Company was in a loss position for the three months ended June 30, 2015 and three and six months ended June 30, 2014, all convertible securities were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

7. SEGMENT REPORTING

The Company operates in two principal geographic locations, Canada and the United States, and has one operating segment. The Company's revenue from operations from external customers, based on location of operations; and information about its non-current assets, are detailed below.

Revenue from external customers

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	($ thousands)		($ thousands)	
Canada	7,730	12,521	17,456	19,093
USA	45,136	29,697	92,111	63,640
	52,866	42,218	109,567	82,733

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

As at	June 30, 2015	December 31, 2014
	($ thousands)	
Canada	36,641	31,753
USA	20,364	17,900
	57,005	49,653

The amounts above exclude notes receivable and deferred tax assets.

8. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Note receivable is due from an individual who is a shareholder and an officer and director of the Company, bears interest at 5% with monthly payments of $3,750 including interest (commencing in August 2013), and is secured by 250,000 common shares of the Company. At June 30, 2015 the balance outstanding was $0.5 million (December 31, 2014 - $0.5 million).

During the three and six months ended June 30, 2015, the Company recorded revenue of $1.1 million and $2.8 million, respectively (June 30, 2014 - $0.9 million and $3.0 million, respectively) from a DP which is owned by a director of the Company. At June 30, 2015, the outstanding balance in accounts receivable was $0.04 million (December 31, 2014 - $0.4 million), and is included in trade and other receivables. In addition, at June 30, 2015, the outstanding balance in customer deposits received was $0.1 million (December 31, 2014 - $0.3 million).

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

9. CAPITAL MANAGEMENT

The Company has $148.3 million (December 31, 2014 - $95.8 million) of total capital resources, comprised of Shareholders' Equity. The Company also has total debt of $10.8 million (December 31, 2014 - $9.9 million).

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

As at June 30, 2015 and December 31, 2014, the Company was in compliance with its lending institution's debt covenant, which was minimum tangible net worth of $60.0 million.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

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

The Company's credit risk is primarily concentrated in its trade receivables. The amounts disclosed in the condensed consolidated statement of financial position are net of allowances for doubtful accounts, estimated by the management of the Company based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce its risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad customer base which is geographically dispersed. The Company does not have significant exposure to any individual customer. A number of factors are considered in determining the likelihood of impairment. The Company had minimal bad debt expense for the three and six months ended June 30, 2015 and 2014.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The Company also has a contract with Export Development Canada ("EDC"), Canada's export credit agency, whereby some of its trade receivables are insured. EDC determines the coverage amount, if any, on a customer-by-customer basis. Based on the Company's trade receivables balance as at June 30, 2015, 76.1% (December 31, 2014 - 56.9 %) of that balance is covered by EDC. Substantially all of the remaining balance is less than 90 days old and is owed by a small number of DIRTT's strong-performing DPs, on which the Company has a high level of confidence of collectability, and government sales that are not covered by EDC. As a result, the Company believes that its exposure to credit risk is limited.

The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies.

Fair value of financial instruments

The fair values of the Company's financial instruments were determined as follows:

a) The carrying amounts of cash and cash equivalents; trade and other receivables; trade accounts payable and accrued liabilities; and customer deposits approximate fair value due to their short-term nature;
b) The carrying amount of notes receivable approximates fair value as they bear interest at a market rate, and have reasonable repayment terms; and
c) The Company's current and long-term debts are carried at amortized cost. The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risks and maturities. The carrying amounts of these instruments approximates fair value due to their respective floating interest rates.

11. COMMITMENTS

As at June 30, 2015, the Company has unpaid capital expenditure commitments of approximately $1.9 million for manufacturing equipment to be delivered in 2015.