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 August 4, 2015, and should be read in conjunction with the Company’s condensed consolidated financial statements and related notes for the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Additionally, the following discussion and analysis should be read in conjunction with the Company’s MD&A, consolidated financial statements and related notes and annual information form for the year ended December 31, 2014 (the “AIF”) and other public filings available on SEDAR at www.sedar.com. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as at and for the three and six months ended June 30, 2015.

The Company’s reporting currency is the Canadian dollar. 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 bought deal offering; and our outlook for our operations and the Canadian, United States (the “US”) and international economies, and in particular; the US construction industry.

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

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

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

- maintaining and managing growth;
- history of losses;
- risks related to new technology;
- competition risks;
- operating results and financial condition fluctuations on a quarterly and annual basis;
- risks related to intellectual property;
- risks related to additional capital requirements;
- customer base and market acceptance;
- software and product defects and design risks;
- availability of key supplies;
- dependence on key personnel;
- commodity price risk;
- credit risk;
- the effect of government regulation;
- risks related to international expansion;
- risks related to physical facilities;
- legal risks;

- foreign currency and fiscal matters;
- risks related to future acquisitions;
- risks related to Forward-Looking Information;
- reliance on third parties; and
- conflicts of interest.

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

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

DIRTT cautions that the foregoing lists of factors are not exhaustive. Further, Forward-Looking Information is made as of the date hereof, and the Company undertakes no obligation to update Forward-Looking Information to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable Canadian securities laws. New factors emerge from time to time, and it is not possible for DIRTT's management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in Forward-Looking Information. No assurance can be given that these expectations will prove to be correct and such Forward-Looking Information contained in this MD&A should not be unduly relied upon. In addition, this MD&A may contain Forward-Looking Information attributed to third party industry sources.

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

MARKET AND INDUSTRY DATA

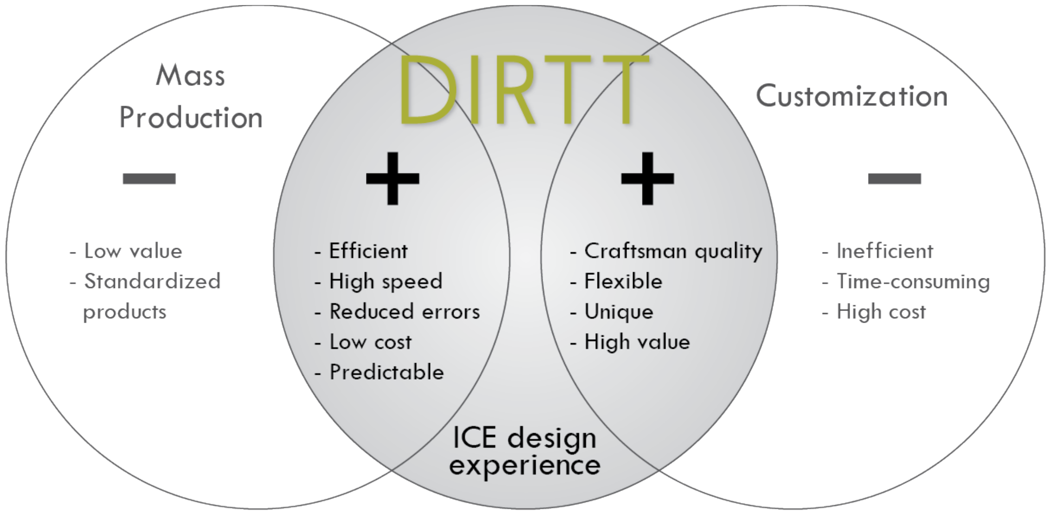
Certain market and industry data contained in this MD&A is based upon information from government or other third party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third party publications and reports do not guarantee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

OVERVIEW

We are a leading technology-driven manufacturer of highly customized interiors. We combine our proprietary ICE® 3D design, configuration and manufacturing software (“ICE” or “ICE Software”) with integrated in-house manufacturing of our innovative prefabricated interior construction solutions and an extensive Distribution Partner (“DP”) network. A DP is a third party who enters into a formal agreement to market and sell our suite of interior construction solutions. DPs are required to invest in their own regional DIRTT team consisting of at least one DIRTT champion, a designer and a project manager; in a Green Learning Center (“GLC”) display area to showcase the potential of DIRTT Solutions (as defined below) to clients; and to purchase an ICE Software package. As of the date hereof, we had 98 DPs in 180 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 time frame (three-week target or better) compared to the conventional approach. Using ICE, we focus on revolutionizing the interior construction industry by combining the speed, cost certainty, sustainability and modularity of prefabrication with the custom dimensions, functionality and aesthetics of skilled trade construction. ICE enables us to deliver a superior client experience, while combining the low unit costs of mass production processes with the flexibility of individual customization. This mass customization, combined with our highly entrepreneurial and client-focused culture, is the foundation for our success.



DIRTT Solutions, including DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings 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 June 30, 2015, we had in excess of 5,600 clients. For the six months ended June 30, 2015, our average project size (on a per project order basis) was approximately $76,000 (June 30, 2014 - $81,000), with the single largest project (on a per project order basis) being $2.0 million (June 30, 2014 - $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. As at June 30, 2015, we have realized $13.8 million in revenue from the previously announced US$30.0 million gross contract with our DP Agile OFIS in Houston, Texas, signed in June 2014.

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 June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
		($ 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**

Revenue from international projects is included in the revenue amount for the US. For the three and six months ended June 30, 2015 revenue from international projects was $0.7 million or 1.4% of total revenue and $3.1 million or 2.8%, respectively (three and six months ended June 30, 2014 – $0.6 million or 1.4% and $4.9 million or 5.9%, respectively).

SECOND QUARTER 2015 HIGHLIGHTS

- Revenue increased by $10.6 million to $52.9 million, or 25.2%, over Q2 2014;
- Trailing 12-month revenue was $214.2 million, a 39.4% increase over the prior trailing 12-month period ($153.6 million);
- Adjusted gross profit percentage (see “Non-IFRS Measures”) improved by 1.3% from 40.7% to 42.0% over Q2 2014;
- Adjusted EBITDA (see “Non-IFRS Measures”) increased by $1.2 million over Q2 2014 to $2.3 million, a 102.3% quarter-over-quarter improvement;
- Net cash flows provided by operating activities before changes in non-cash working capital (see “Non-IFRS Measures”) were $2.2 million, an increase of $2.0 million over Q2 2014;
- Completed a bought deal offering whereby 5,175,000 common shares of DIRTT (“Common Shares”) were issued at $8.35 per Common Share for gross proceeds of approximately $43.2 million ($40.6 million, net); and
- Launched our new residential interior and timber frame construction offerings at our annual sales, marketing and training initiative in Chicago.

YEAR TO DATE 2015 HIGHLIGHTS

In addition to the highlights reported in the second quarter of 2015, during the six months ended June 30, 2015:

- Revenue increased by $26.8 million to $109.6 million, or 32.4%, over YTD 2014;

- Adjusted EBITDA (see "Non-IFRS Measures") increased by $6.1 million over YTD 2014 to $11.0 million, a 126.4% year-over-year improvement;
- Net cash flows provided by operating activities before changes in non-cash working capital (see "Non-IFRS Measures") were $12.4 million, an increase of $8.1 million over YTD 2014; and
- DIRTT entered into a strategic collaboration with Corning Incorporated to bring Corning® Willow® Glass to DIRTT's suite of interior construction solutions.

BOUGHT DEAL OFFERING

In June 2015, we completed a bought deal offering whereby a total of 5,175,000 Common Shares (which included the exercise in full of the over-allotment option granted to the underwriters) were issued at an offering price of $8.35 per Common Share for total gross proceeds of approximately $43.2 million ($40.6 million, net). Total transaction costs incurred by DIRTT for this transaction were $2.6 million, which consisted of underwriters' commission and fees, audit, legal, filing, French translation, and printing fees. The net proceeds will be used for (i) product development of new DIRTT Solutions for specific sectors, such as residential, healthcare and commercial, as well as capital expenditures to support initiatives for these sectors; (ii) ongoing development of DIRTT's proprietary ICE Software, including the implementation and integration of all new product development solutions into ICE, regular ongoing software development initiatives and the hiring of additional ICE personnel to support these initiatives; (iii) new sales and business development initiatives, including the addition of new resources to support growth in current and new industry verticals as well as international markets; and (iv) working capital purposes and to satisfy any future bonding requirements with respect to major projects.

ANNUAL SALES, MARKETING & TRAINING INITIATIVE – DIRTT CONNEXT™

DIRTT's largest sales, marketing and training initiative (now called DIRTT Connext™) occurs in Chicago every June, coinciding with NeoCon®, North America's largest commercial interiors exposition which typically attracts approximately 50,000 design professionals. DIRTT hosts its own series of events before, during and after the three-day NeoCon event. Each year DIRTT transforms its company-owned GLC in Chicago to showcase its newest innovations and construction solutions to the architect and design community, DPs, and potential and existing clientele. This year, DIRTT's new residential interiors and timber frame construction were featured and received accolades from the thousands of people who visited the GLC. We also conducted comprehensive training sessions for our DPs and sales representatives during DIRTT Connext, in addition to tours for trade media and investors. DIRTT's success relies heavily on the success of our DPs. Extensive training sessions are an important aspect of DIRTT Connext, and provide invaluable information to our DPs as well as to the DIRTT teams who support them. Hearing from and sharing ideas with the most successful DPs, presentations from key third parties and time spent with DIRTT resources strengthens their ability to succeed in their local markets. Feedback from the sessions is consistently inspiring.

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three and six months ended June 30, 2015 and 2014.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	($ thousands, except per share amounts)			
Revenue	52,866	42,218	109,567	82,733
Gross profit	21,413	16,758	45,214	33,848
Gross profit %	40.5%	39.7%	41.3%	40.9%
Adjusted gross profit (1)	22,225	17,200	46,736	34,823
Adjusted gross profit % (1)	42.0%	40.7%	42.7%	42.1%
Selling, general and administrative ("SG&A")	22,544	17,826	42,615	33,918
Adjusted SG&A (1)	19,809	15,633	37,237	29,726
Adjusted SG&A as a % of revenue (1)	37.5%	37.0%	34.0%	35.9%
Operating (loss) income	(1,131)	(1,579)	2,599	(581)
Adjusted EBITDA (1)	2,324	1,149	11,013	4,864
Income tax expense (recovery)	245	(215)	467	79
Net (loss) income	(1,363)	(2,055)	3,319	(2,125)
Net (loss) income per basic and diluted share	(0.02)	(0.03)	0.04	(0.03)

Note:

(1) See "Non-IFRS Measures".

Revenue

Revenue increased by $10.6 million, or 25.2%, for the three months ended June 30, 2015 compared with the same period in 2014. Revenue increased by $26.8 million, or 32.4%, for the six months ended June 30, 2015 compared with the same period in 2014. The increase in revenue was the result of continued momentum throughout North American markets, as well as the strengthening US dollar.

During the three and six months ended June 30, 2015, we recognized revenue of $0.3 million and $8.4 million, respectively, from the previously announced US$30.0 million contract awarded to DIRTT and its DP Agile OFIS of Houston, Texas.

Adjusted Gross Profit

Adjusted gross profit as a percentage of revenue increased from 40.7% to 42.0% for the three months ended June 30, 2015 compared with the same period in 2014. Adjusted gross profit as a percentage of revenue increased from 42.1% to 42.7% for the six months ended June 30, 2015 compared with the same period in 2014. The increase was due primarily to significantly stronger revenue in the 2015 periods compared with the same periods in 2014, leading to greater efficiencies driven by higher overall volumes in our production facilities.

Operating efficiencies were somewhat reduced for the three months ended June 30, 2015 and 2014, as monthly sales volume fluctuated within both quarters. Quarters that contain consistent monthly manufacturing volumes tend to generate higher gross profit than those where manufacturing levels vary more significantly from month to month.

The stronger US dollar also contributed to higher adjusted gross profit in the three-and six-month periods ended June 30, 2015, as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

Adjusted SG&A Expenses

Adjusted selling, general and administrative expenses ("SG&A") is SG&A before deductions for non-cash depreciation and amortization of non-manufacturing related assets and stock-based compensation expenses. See Non-IFRS Measures for a reconciliation. Adjusted SG&A expenses increased by $4.2 million, or 26.7%, for the three months ended June 30, 2015 compared with the same period in 2014. The resulting increase in adjusted SG&A as a percentage of revenue was 0.5%, from 37.0% to 37.5% over the same quarterly periods. The most significant change can be attributed directly to sales-related efforts as salaries and benefits increased by $1.5 million, and commission expense for our internal sales representatives and industry specific experts increased by $0.8 million. These costs reflect personnel additions focused on generating and supporting higher business volumes. Higher commission costs are in line with the greater revenue volumes in the current quarter. Travel and marketing costs in the period increased by $1.1 million, due primarily to DIRTT Connext, the previously discussed annual sales, marketing and training initiative held in Chicago in June. The total cost for DIRTT Connext in the current period was $2.3 million, compared with $1.3 million in the prior year. The increased cost was due to increased DP and team attendance at the internally focused, senior management-led training sessions, as well as a significantly higher volume of tours through the completely redesigned GLC, where DIRTT's new residential and timber frame solutions were rolled out. We also conducted a series of media and investor relations activities as part of the week-long event. This annual event occurs in Q2, but includes comprehensive initiatives that significantly enhance our regular marketing, training and communications efforts and benefit DIRTT throughout the remainder of the year and beyond. Other increases in adjusted SG&A in the current quarter included rent expense of $0.1 million, professional services of $0.1 million, insurance expense of $0.1 million, and $0.5 million in other miscellaneous items.

Adjusted SG&A as a percentage of revenue decreased by 1.9% from 35.9% to 34.0% in the six months ended June 30, 2015 compared with the same period in 2014. Adjusted SG&A expenses increased by $7.5 million or 25.3% in the six months ended June 30, 2015 compared with the same period in 2014. The increase was due to increases in salaries and benefits of $2.5 million, commission expense of $1.7 million, travel and marketing costs of $1.8 million, rent expense of $0.3 million, professional services of $0.3 million, and $0.9 million in other miscellaneous items. The increase in salaries and benefits, commission expense and travel and marketing costs are due to the same reasons discussed above.

The stronger US dollar contributed to the overall increase in adjusted SG&A expenses across the organization in the three and six months ended June 30, 2015.

Adjusted EBITDA

Adjusted EBITDA increased by $1.2 million for the three months ended June 30, 2015 compared with the same period in 2014. The increase was mainly due to the $10.6 million increase in revenue and the resulting increase in adjusted gross profit of $5.0 million. These amounts were partially offset by the increase in adjusted SG&A expenses of $4.2 million for the reasons discussed above.

Adjusted EBITDA increased by $6.1 million for the six months ended June 30, 2015 compared with the same period in 2014. The increase was mainly due to the $26.8 million improvement in revenue and the resulting increase in adjusted gross profit of $11.9 million. These amounts were partially offset by the increase in adjusted SG&A expenses of $7.5 million for the reasons discussed above.

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2015 was $0.2 million and $0.5 million compared with a $0.2 million recovery and $0.1 million expense, respectively, for the same periods in 2014, mainly reflecting the profitability of our US subsidiary during these periods.

Summary of Quarterly Results

	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013
				($ thousands, except per share amounts)				
Revenue	52,866	56,701	57,945	46,651	42,218	40,515	34,202	36,708
Adjusted gross profit % [(1)]	42.0%	43.2%	44.4%	42.3%	40.7%	43.5%	38.4%	39.4%
Operating (loss) income	(1,131)	3,730	6,580	1,301	(1,579)	998	(2,957)	(102)
Net (loss) income	(1,363)	4,682	6,553	1,526	(2,055)	(70)	(10,151)	(494)
Net (loss) income per basic and diluted share	(0.02)	0.06	0.09	0.02	(0.03)	(0.00)	(0.25)	(0.01)

Note:

(1) See “Non-IFRS Measures”.

Trends

DIRTT’s business typically demonstrates some seasonality. The first quarter and fourth quarter have historically shown a small slowdown of activity which corresponds with the winter months and holiday season. However, DIRTT did not experience this trend for 2014 and the first quarter of 2015.

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 where manufacturing levels vary more significantly from month to month.

Changes in Financial Position

The following is a discussion of changes in the condensed consolidated statement of financial position as at June 30, 2015.

As at	June 30, 2015	December 31, 2014	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Current assets					
Cash and cash equivalents	92,666	39,836	52,830	133%	See "Liquidity and Capital Resources"
Trade and other receivables	17,339	28,425	(11,086)	(39%)	Reflects improvement in collection of receivables and a decrease in revenue
Inventory	15,765	15,097	668	4%	Insignificant change
Prepaids and other current assets	1,810	1,853	(43)	-2%	Insignificant change
	127,580	85,211			
Current liabilities					
Trade accounts payable and accrued liabilities	19,471	22,933	(3,462)	(15%)	Reflects timing of payment of payables
Customer deposits	6,917	7,271	(354)	(5%)	A large portion of orders on hand at the end of June 2015 did not require deposits
Current portion of long-term debt	4,685	3,516	1,169	33%	Reflects the current portion of an additional $2.1 million in capital financing facility drawn in March 2015 and strenthening of the US dollar
Provisions	783	814	(31)	(4%)	Insignificant change
Current tax liabilities	45	243	(198)	(81%)	Reflects taxable position in our US subsidiary, partially offset by federal instalment payments relating to 2015
	31,901	34,777			
Working capital					
(Current assets minus Current liabilities)	95,679	50,434	45,245	90%	

As at	June 30, 2015	December 31, 2014	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Non-current assets					
Long-term deposits	669	624	45	7%	Insignificant change
Property, plant and equipment	41,273	35,661	5,612	16%	Reflects additions of $8.1 million (mostly manufacturing equipment and leasehold improvements, rebuild of Chicago GLC) and foreign exchange adjustment of $1.3 million, partially offset by depreciation expense of $3.8 million
Intangible assets	13,218	11,523	1,695	15%	Reflects additions of $3.5 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $1.8 million
Note receivable	454	465	(11)	(2%)	Reflects scheduled repayments during 2015
Deferred tax assets	2,390	2,099	291	14%	Reflects year to year changes in temporary differences
Goodwill	1,845	1,845	-	-	No change
Non-current liabilities					
Deferred tax liabilities	1,062	518	544	105%	General movement in temporary differences
Long-term debt	6,158	6,336	(178)	(3%)	Reflects an additional $2.1 million drawn on the capital financing facility in March 2015 and the strengthening of the US dollar, partially offset by repayments of $1.6 million during 2015
Shareholders' equity					
Common share capital	189,979	143,386	46,593	32%	Reflects completion of bought deal financing in June 2015 ($40.6 million), stock options and warrants exercised during 2015
Warrants	37	526	(489)	(93%)	Reflects warrant exercised during 2015
Contributed surplus	5,826	5,440	386	7%	Primarily due to stock-based compensation expense, partially offset by stock option exercises during 2015
Accumulated other comprehensive income	6,363	3,661	2,702	74%	Reflects the strengthening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(53,897)	(57,216)	3,319	(6%)	Net income from 2015

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Condensed consolidated statements of cash flows

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
		($ thousands)		
Cash flows provided by operating activities before changes in non-cash working capital [1]	2,221	230	12,350	4,297
Changes in non-cash working capital	10,612	353	6,569	(4,545)
Net cash flows provided by (used in) operating activities	12,833	583	18,919	(248)
Add (deduct):				
Net cash flows used in investing activities	(7,196)	(4,367)	(11,591)	(6,744)
Net cash flows provided by (used in) financing activities	42,200	(174)	45,502	(1,017)
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**

Note:

[1] See "Non-IFRS Measures".

At June 30, 2015, we had $92.7 million in cash and cash equivalents, compared with $39.8 million at December 31, 2014. At June 30, 2015, we had an undrawn US$18.0 million revolving operating facility.

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

Net cash flows provided by (used in) operating activities

Net cash flows provided by operating activities increased by $12.2 million for the three months ended June 30, 2015 compared with the same period in 2014. The growth was mainly due to an increase in changes in non-cash working capital items of $10.3 million and an increase in adjusted EBITDA of $1.2 million as a result of higher revenue during the three months ended June 30, 2015.

Net cash flows provided by operating activities increased by $19.2 million for the six months ended June 30, 2015 compared with the same period in 2014. The growth was mainly due to an increase in changes in non-cash working capital items of $11.1 million and an increase in adjusted EBITDA of $6.1 million as a result of higher revenue during the six months ended June 30, 2015.

Net cash flows used in investing activities

Net cash flows used in investing activities for the three months ended June 30, 2015 increased by $2.8 million compared with the same period in 2014. Net cash flows used in investing activities for the six months ended June 30, 2015 increased by $4.8 million compared with the same period in 2014. The majority of the increase relates to investment in new manufacturing equipment and our company-owned GLCs, specifically our Chicago GLC for DIRTT Connext. We also continue to invest in product and software development and our ongoing commitment to further enhance and expand our solutions such as the new residential interiors, timber frame construction, Enzo Approach and Corning® Willow® Glass.

Net cash flows (used in) provided by financing activities

Net cash flows provided by financing activities for the three months ended June 30, 2015 increased by $42.4 million compared with the same period in 2014. The majority of the increase came from the completion of the bought deal offering in June 2015, whereby 5,175,000 Common Shares were issued at $8.35 per Common Share for gross proceeds of approximately $43.2 million ($40.6 million, net), exercise of stock options and warrants for proceeds of $2.7 million.

Net cash flows provided by financing activities for the six months ended June 30, 2015 increased by $46.5 million compared with the same period in 2014. The majority of the increase came from the net proceeds of $40.6 million from the bought deal offering completed in June 2015, the exercise of stock options and warrants for proceeds of $4.6 million and an additional draw of $2.1 million on the capital financing 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 rises, production synergies permit greater improvements in gross profit.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
		($ thousands)		
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**
Gross profit %	**40.5%**	**39.7%**	**41.3%**	**40.9%**
Add back:				
Depreciation included in cost of goods sold	812	442	1,522	975
Adjusted gross profit	**22,225**	**17,200**	**46,736**	**34,823**
Adjusted gross profit %	**42.0%**	**40.7%**	**42.7%**	**42.1%**

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
		($ thousands)		
SG&A	22,544	17,826	42,615	33,918
Less: Depreciation included in SG&A	(2,121)	(2,137)	(4,135)	(4,089)
Less: Stock-based compensation expense included in SG&A	(614)	(56)	(1,243)	(103)
Adjusted SG&A	**19,809**	**15,633**	**37,237**	**29,726**
Adjusted SG&A as a % of revenue	**37.5%**	**37.0%**	**34.0%**	**35.9%**

EBITDA and Adjusted EBITDA

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
		($ thousands)		
Net (loss) income for the period	(1,363)	(2,055)	3,319	(2,125)
Add back (deduct):				
Finance costs	107	584	205	1,200
Interest income	(118)	(57)	(177)	(127)
Income tax expense (recovery)	245	(215)	467	79
Depreciation included in cost of goods sold	812	442	1,522	975
Depreciation and amortization included in SG&A	2,121	2,137	4,135	4,089
EBITDA	**1,804**	**836**	**9,471**	**4,091**
Stock-based compensation	614	56	1,243	103
Non-cash loss on derecognition of liability	-	153	-	153
Gain on sale of property, plant and equipment	-	(18)	-	(18)
Secondary offering transaction costs	-	511	-	511
Non-cash foreign exchange (gain) loss on debt revaluation	(94)	(389)	299	24
Adjusted EBITDA	**2,324**	**1,149**	**11,013**	**4,864**

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
		($ thousands)		
Net cash flows provided by (used in) operating activities	12,833	583	18,919	(248)
Changes in non-cash working capital	(10,612)	(353)	(6,569)	4,545
Net cash flows provided by operating activities before changes in non-cash working capital	**2,221**	**230**	**12,350**	**4,297**

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, issuing equity has been our primary source of capital. The bought deal completed in June 2015 provided us with net proceeds of approximately $40.6 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 as at June 30, 2015 and December 31, 2014, which was minimum tangible net worth of $60.0 million.

CONTRACTUAL OBLIGATIONS

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

OUTSTANDING SHARE DATA

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

As at	August 4, 2015	June 30, 2015
Common shares	83,893,546	83,715,717
Stock options (1)	3,489,630	3,673,359
Other warrants (1)	100,000	100,000
Total	87,483,176	87,489,076

Note:

(1) Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At June 30, 2015, a note receivable of $0.5 million (December 31, 2014 - $0.5 million) remains outstanding from Mogens Smed ("Mr. Smed"), a shareholder, officer and a director of DIRTT. The note receivable bears interest at 5% with monthly payments of $3,750, including interest, commencing in August 2013, and is secured by a pledge of 250,000 Common Shares held by Mr. Smed. The note receivable was advanced to Mr. Smed to enable him to meet certain personal financial obligations after he, at the request of DIRTT, agreed to be issued Common Shares rather than cash on maturity of $0.5 million principal amount of convertible debentures issued to Mr. Smed on February 1, 2005. The $0.5 million advanced to DIRTT by Mr. Smed, and evidenced by the convertible debentures, was used by us to meet certain financial obligations.

During the three and 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.

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. We consider credit risk to be one of our main financial risks.

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 condensed 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 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, we believe that our exposure to credit risk is limited.

Fair value of financial instruments

The fair values of our financial instruments are 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 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.

RISK FACTORS

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

OUTLOOK

Construction is a major global industry and consists of building new structures, making additions and modifications to existing structures, as well as conducting maintenance, repair and leasehold improvements on existing structures. The total US construction market was US$962 billion in 2014, of which US$618 billion was attributable to non-residential building and US$344 billion was attributable to residential building [*Source: US Census Bureau*]. This includes both new building and renovation projects. Total US non-residential and residential construction spending is forecasted to grow to US$723 billion and US$529 billion, respectively, 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 five 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, such as the Middle East and Singapore, by capitalizing on recent and continued investment alongside new international DPs; (3) penetrating new industries such as the hospitality and residential sectors; (4) continuing to invest in ICE and new innovative interior construction solutions such as the Enzo Approach, residential interiors and timber frame construction; and (5) partnering with industry leaders to monetize innovative solutions - a recent example is the Corning® Willow® Glass initiative signed in February 2015.

With the recent launch of our residential solutions at DIRTT Connext, we have officially entered into this market. We don’t expect to see meaningful revenue from this market in the near term.

We believe DIRTT Solutions are a superior alternative to conventional construction in all sectors of the construction industry, and that a continued increase in construction activity can be expected to result in an ongoing improvement in our revenue. We plan to invest additional resources, including the further development of ICE and the development of new DIRTT Solutions and test projects, to pursue further opportunities in healthcare, education and government, and new opportunities in the hospitality and residential sectors of the construction industry. Our product development team has been and, 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. The most recent June billing and inquiries numbers continued to show growth, building on an improving trend following poor weather in the first two months of this year. Billing activity also continued to grow across all four reported regions and was especially strong in the Midwest, South and West. Both we and the AIA believe these numbers point to improved fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

DIRTT anticipates that further revenue contribution from the gross US$30.0 million contract announced in mid-2014 will be deferred to Q4 2015, with the majority of the remaining revenue contribution to be realized in 2016. We believe that continued softness in global commodity pricing could result in weakness for the energy industry segment.

USE OF PROCEEDS

We received net proceeds of approximately $40.6 million from the bought deal offering completed on June 4, 2015. The following table compares the intended use of the net proceeds with the actual expenditures as at June 30, 2015, by which time the net proceeds from the bought deal offering were partially expended.

(in thousands)	Estimated per Prospectus	Actual spending up to June 30, 2015	Future estimated spending
Product development	$ 10,000	$ 1,301	$ 8,699
New sales and business development initiatives	3,000	3,500	-
ICE software development	8,000	391	7,609
	21,000	5,192	16,308
Working capital purposes - including short-term investments	19,600	35,408	(16,308)
Total (Estimated/Actual)	$ 40,600	$ 40,600	$ -

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

As at June 30, 2015, pending the use of the remaining proceeds, we held $40.0 million in short-term interest-bearing deposits at a Canadian financial institution.

CRITICAL ACCOUNTING ESTIMATES

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

There have been no significant changes in our critical accounting estimates since December 31, 2014.

FUTURE ACCOUNTING PRONOUNCEMENTS

There have been no significant changes, except for the change noted below, to new and revised accounting pronouncements since December 31, 2014.

On July 22, 2015, the International Accounting Standards Board affirmed its proposal to defer the effective date of IFRS 15: Revenue From Contracts With Customers, to January 1, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of the Company’s internal control procedures, management believes its internal controls and procedures are appropriately designed as at June 30, 2015.

No significant changes in the Company’s internal control over financial reporting occurred during the three months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

DISCLOSURE CONTROLS

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at June 30, 2015 and have concluded that it is appropriate.