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 16, 2016, and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2015 compared to the year ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information, including the Company's annual information form for the year ended December 31, 2015 (the "AIF"), can be found on SEDAR at www.sedar.com.

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 2016 and beyond; project timetables; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; use of proceeds from the 2015 bought deal offering discussed 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 suite of interior construction 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 their clients; and to purchase an ICE Software package. As of the date hereof, we had 103 DPs in 183 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 business.

DIRTT Solutions, including DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings, DIRTT Floors and DIRTT Timber Frame form a comprehensive offering that allows us to 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

Our revenues reflect sales to DPs for resale to their clients. We do not depend on any one DP, DP's client, industry or minimum job size. Our DPs' clients range from small owner-managed businesses to large multinational Fortune 500 corporations in a diverse range of vertical markets and industries including healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, and technology. As at December 31, 2015, our DPs had delivered DIRTT Solutions to more than 5,600 of their clients. For the year ended December 31, 2015, our average project size (on a per project order basis) was approximately $87,000 (2014 - $81,000), with the single largest project (on a per project order basis) being $2.0 million (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 December 31, 2015, we have realized $14.0 million in revenue from project orders as part of the previously announced US$30.0 million gross contract with our DP Agile OFIS in Houston, Texas, signed in June 2014. This contract is currently on hold until further notice.

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.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
		($ thousands)		
Canada	14,560	10,291	44,919	42,631
US	50,428	47,654	191,706	144,698
	64,988	**57,945**	**236,625**	**187,329**

Revenue from international projects is included in the revenue amount for the US as these projects are sold by US-based DPs and delivered to international locations. For Q4 2015 and year ended December 31, 2015, revenue from international projects was $1.7 million, or 2.6% of total revenue, and $8.2 million, or 3.4% of total revenue, respectively (Q4 2014 and year ended December 31, 2014 – $2.2 million, or 3.8% and $8.5 million, or 4.5%, respectively).

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 that we use to evaluate our business include revenue; revenue growth; gross profit; adjusted gross profit; adjusted gross profit %; adjusted selling, general and administrative expenses ("adjusted SG&A"); adjusted SG&A as a percentage of revenue; adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA"); and adjusted EBITDA growth. 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, adjusted EBITDA and adjusted EBITDA as a percentage of revenue are non-IFRS measures. See "Non-IFRS Measures" for a reconciliation of these items.

We do not have a backlog of booked but not yet completed projects, which is common in traditional construction, as DIRTT Solutions 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 this 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 licenses 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 continue to pursue our growth strategy through five key initiatives: (i) increasing penetration of existing markets by providing continued support and increased investment to our existing DPs throughout North America; (ii) expanding into new geographies, such as the Middle East and United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (iii) penetrating new vertical markets such as the residential sector; (iv) investing in ICE and new innovative interior construction solutions such as the Enzo Approach, residential interiors and timber frame construction; and (v) partnering with industry leaders to monetize innovative solutions – a recent example of which is the Corning® Willow® Glass initiative signed in February 2015. 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 licenses 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 global economic volatility.

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 recent strengthening of the US dollar versus the Canadian dollar has had a positive impact on our overall revenue.

Gross Profit/Adjusted 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. 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. We expect that as manufacturing volumes and revenue rise, production synergies should allow for improvements in gross profit.

Gross profit, adjusted 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 overall gross profit and gross profit %.

The largest component of cost of goods sold – approximately 50% – comes from materials. Price risks relating to materials and components are mitigated as production turnaround times are 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 are 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 has a positive impact on our overall gross profit as the positive impact on revenue is greater than the negative impact on US dollar-denominated production costs.

SG&A/ Adjusted SG&A/ Adjusted SG&A as a percentage of revenue

Selling, general and administrative ("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, non-cash stock-based compensation expense and non-cash one-time commission adjustment. 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.

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.

The strengthening of the US dollar has had a negative impact on overall SG&A costs as some of these costs are incurred in US dollars.

Adjusted EBITDA/ Adjusted EBITDA as a percentage of revenue

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; non-cash one-time commission adjustment and any other non-recurring gains or losses. Adjusted EBITDA as a percentage of revenue is calculated as adjusted EBITDA divided by revenue.

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

FOURTH QUARTER 2015 HIGHLIGHTS

- Revenue increased by $7.0 million to $65.0 million, or 12.2%, over Q4 2014;
- Adjusted SG&A as a percentage of revenue (see "Non-IFRS Measures") increased by 2.5% from 28.5% to 31.0% over Q4 2014;
- Adjusted EBITDA as a percentage of revenue (see "Non-IFRS Measures") decreased by 2.2% from 16.9% to 14.7% versus Q4 2014; and
- Previously unrecognized deferred tax assets of $5.3 million were recognized, of which $4.0 million was recorded in the statement of income and comprehensive income and $1.3 million was recorded in equity.

FULL YEAR 2015 HIGHLIGHTS

In addition to the highlights reported in the fourth quarter of 2015, during the year ended December 31, 2015:

- Revenue increased by $49.3 million to $236.6 million, or 26.3%, over 2014;

- Adjusted gross profit % (see "Non-IFRS Measures") improved by 1.3% from 42.9% to 44.2% over 2014;
- Adjusted EBITDA (see "Non-IFRS Measures") increased by $14.8 million from $19.9 million to $34.7 million over 2014;
- Adjusted EBITDA as a percentage of revenue (see "Non-IFRS Measures") increased by 4.1% from 10.6% to 14.7% over 2014;
- EPS increased by $0.14 from $0.08 to $0.22 over 2014;
- Net cash flows provided by operating activities before changes in non-cash working capital (see "Non-IFRS Measures") were $37.2 million, an increase of $17.2 million over 2014;
- DIRTT entered into an exclusive strategic collaboration with Corning Incorporated to bring Corning® Willow® Glass to DIRTT's suite of interior construction solutions;
- DIRTT completed a bought deal offering issuing 5,175,000 common shares of DIRTT ("Common Shares") at $8.35 per Common Share for gross proceeds of approximately $43.2 million ($40.6 million net);
- DIRTT launched our new residential interior and timber frame construction offerings at DIRTT's annual sales, marketing and training initiative in Chicago (called DIRTT Connext); and
- DIRTT filed claims for patent infringement against Allsteel Inc.

BOUGHT DEAL OFFERING

In June 2015, we completed a bought deal offering issuing a total of 5,175,000 Common Shares (which included the exercise in full of the over-allotment option granted to the underwriters) 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 were $2.6 million, which consisted of underwriters' commission and fees, audit, legal, filing, French translation, and printing fees. The net proceeds are being used for (i) product development of new DIRTT Solutions for specific sectors, such as residential, healthcare, education and commercial, as well as capital expenditures to support initiatives for these sectors; (ii) ongoing development of DIRTT's proprietary ICE Software, including implementing and integrating all new product development solutions into ICE, regular ongoing software development initiatives and hiring additional ICE personnel to support these initiatives; (iii) new sales and business development initiatives, including adding 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.

The following table compares the intended use of the net proceeds with the actual expenditures as at December 31, 2015, by which time the net proceeds from the bought deal offering were partially expended.

(in thousands)	Estimated per Prospectus	Actual spending up to December 31, 2015	Future estimated spending
Product development	$ 10,000	$ 4,414	$ 5,586
New sales and business development initiatives	3,000	3,680	-
ICE software development	8,000	2,750	5,250
	21,000	10,844	10,836
Working capital purposes - including short-term investments	19,600	29,756	(10,836)
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.

ANNUAL SALES, MARKETING & TRAINING INITIATIVE – DIRTT CONNEXT™

DIRTT's largest sales, marketing and training initiative (called DIRTT Connext™) occurs in Chicago every June, coinciding with NeoCon®, North America's largest commercial interiors exposition which typically attracts 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. DIRTT's new residential interiors and timber frame construction were featured in 2015 and received accolades from the thousands of people who visited the GLC. The Company also conducted comprehensive training sessions for 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 its 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 that 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.

PATENT INFRINGEMENT CLAIMS

In August 2015, the Company filed claims for patent infringement against Allsteel Inc., claiming that Allsteel Inc.'s Beyond® products infringe on DIRTT's patent rights, specifically US Patent Number 8,024,901, which is related to our reconfigurable wall system. As of the date hereof, there has been no significant development with respect to these claims.

SELECTED ANNUAL INFORMATION

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, 2015, 2014 and 2013.

	Year ended December 31,		
	2015	**2014**	**2013**
	($ thousands, except share and per share amounts)		
Operations			
Revenue	236,625	187,329	139,795
Operating income (loss)	16,226	7,300	(4,267)
Other income (expenses)	1,957	(709)	(10,932)
Net income (loss)	17,892	5,954	(16,495)
Net income (loss) per share			
Basic and diluted	0.22	0.08	(0.42)
Weighted average number of shares outstanding			
Basic	81,170,086	72,151,809	39,230,344
Diluted	83,010,711	74,042,768	39,230,344

As at December 31,	**2015**	**2014**	**2013**
	($ thousands)		
Financial position			
Property, plant and equipment	48,236	35,661	29,986
Intangible assets	15,225	11,523	10,112
Total assets	212,250	137,428	108,891
Current portion of long-term debt	3,663	3,516	2,419
Non-current financial liabilities			
Long-term debt	5,498	6,336	5,673
Convertible notes	-	-	9,904
Total shareholders' equity	170,839	95,797	68,600

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three months and years ended December 31, 2015 and 2014.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
	($ thousands, except per share amounts)			
Revenue	64,988	57,945	236,625	187,329
Gross profit	28,443	25,050	101,456	78,043
Gross profit %	43.8%	43.2%	42.9%	41.7%
Adjusted gross profit (1)	29,330	25,716	104,496	80,279
Adjusted gross profit % (1)	45.1%	44.4%	44.2%	42.9%
Selling, general and administrative ("SG&A")	21,073	18,470	85,230	70,235
SG&A as a % of revenue	32.4%	31.9%	36.0%	37.5%
Adjusted SG&A (1)	20,135	16,495	72,613	61,187
Adjusted SG&A as a % of revenue (1)	31.0%	28.5%	30.7%	32.7%
Operating income	7,370	6,580	16,226	7,300
Adjusted EBITDA (1)	9,573	9,793	34,709	19,916
Adjusted EBITDA as % of revenue (1)	14.7%	16.9%	14.7%	10.6%
Income tax (recovery) expense	(1,501)	504	291	637
Net income	9,127	6,553	17,892	5,954
Net income per share - basic and diluted	0.11	0.09	0.22	0.08

Note:

(1) See "Non-IFRS Measures".

Revenue

Revenue increased by $7.0 million, or 12.2%, for Q4 2015 compared with Q4 2014. Q4 2014 revenue included $5.0 million from the previously announced US$30.0 million US energy sector contract compared to $0.1 million in Q4 2015. During Q4 2015, the Company received notification that the contract is on hold until further notice. This business was offset by a general increase in activity from small and medium sized projects. While total volume increased modestly quarter over quarter, the strengthening US dollar increased the Canadian dollar value of US revenue. Sales to the energy sector accounted for 7% of total revenue in Q4 2015, down from 24% of total revenue in Q4 2014. The reduction reflects the absence of contribution from the previously announced US$30.0 million contract and a general decline in activity in this sector as a result of falling energy prices. This decline was more than offset by increases in revenue from the financial, insurance and real estate and management, professional and scientific services sectors.

Revenue increased by $49.3 million, or 26.3%, for the year ended December 31, 2015 compared with the same period in 2014. The increase was due to contribution of $8.6 million from the previously announced US$30.0 million contract (2014 - $5.4 million), continued momentum throughout North American markets, and the strengthening US dollar. During the year ended December 31, 2015, the energy sector accounted for 10% of total revenue, down from 20% of total revenue in 2014. This decline was more than offset by increases in revenue from the financial, insurance and real estate; technology and retail trade sectors. These results demonstrate the overall strength in the North American construction market, and the diversity of DIRTT's network, reach and unique offerings.

Adjusted Gross Profit/ Adjusted Gross Profit %

Adjusted gross profit % increased slightly from 44.4% to 45.1% for Q4 2015 compared with Q4 2014.

Adjusted gross profit for the year ended December 31, 2015 improved to $104.5 million from $80.3 million for the year ended December 31, 2014 with adjusted gross profit % widening 1.3% to 44.2% from 42.9%. The increase was due primarily to significantly higher revenue and favorable product mix resulting in reduced material and direct labor costs in 2015 compared with 2014. Higher overall production volumes in 2015 allowed DIRTT to more effectively leverage the fixed component of cost of goods sold, which also contributed to the higher adjusted gross profit percentage. During the year ended December 31, 2015, material costs and direct labor costs as a percentage of revenue improved by 0.4% and 1.0%, respectively, compared with 2014, partially due to product mix and leverage from higher revenue levels. Higher production volumes enable better absorption of fixed costs included in cost of goods sold, such as facilities costs and indirect labor costs. During the year ended December 31, 2015, indirect labor and product costs, which are mostly fixed costs, improved by 0.2% as a percentage of revenue compared with 2014.

The stronger US dollar also contributed to higher adjusted gross profit in the three months and year ended December 31, 2015, 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 as a percentage of revenue

Adjusted SG&A is SG&A before deductions for non-cash depreciation and amortization of non-manufacturing-related assets, stock-based compensation expense and non-cash one-time commission adjustment. See Non-IFRS Measures for a reconciliation. Adjusted SG&A as a percentage of revenue increased by 2.5% from 28.5% to 31.0% in Q4 2015 compared with Q4 2014. Adjusted SG&A expenses increased by $3.6 million, or 22.1%, for Q4 2015 compared with Q4 2014. The increase reflects DIRTT's ongoing investment in long-term growth. The most significant changes can be attributed directly to sales-related efforts as salaries and benefits increased by $2.0 million. These costs reflect adding personnel focused on generating and supporting higher business volumes. Other increases in adjusted SG&A in Q4 2015 included non-cash marketing promotional items of $0.9 million, travel and marketing costs of $0.4 million, rent expense of $0.2 million, and $0.1 million in other operating expense items. Non-cash marketing activities are used to showcase DIRTT's latest innovations and provide our partners with real-life examples of how best to position DIRTT's value proposition.

Adjusted SG&A as a percentage of revenue decreased by 2.0% from 32.7% to 30.7% in the year ended December 31, 2015 compared with the same period in 2014. Adjusted SG&A expenses increased by $11.4 million, or 18.7%, for the year ended December 31, 2015 compared with 2014. The change was due to increases in salaries and benefits of $4.9 million, travel and marketing costs of $3.0 million, non-cash marketing promotional items of $1.2 million, rent expense of $0.6 million, professional services of $0.3 million, repairs and maintenance costs of $0.2 million, and $1.2 million in other operating expense items. The increase in salaries and benefits are for the same reasons discussed above. The increase in travel and marketing costs in 2015 was due largely to DIRTT Connext, the previously discussed annual sales, marketing and training initiative held in Chicago in June. The total cost for DIRTT Connext in 2015 was $2.3 million, compared with $1.3 million in the prior year. The increased cost was due to greater 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. The Company 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 regular marketing, training and communications efforts and benefit DIRTT throughout the remainder of the year and beyond.

The stronger US dollar contributed to the overall increase in adjusted SG&A expenses across the organization for the three months and year ended December 31, 2015, as certain of these expenditures are denominated in US dollars.

Adjusted EBITDA/ Adjusted EBITDA as a percentage of revenue

Adjusted EBITDA decreased by $0.2 million, or 2.2%, for Q4 2015 compared with Q4 2014. Adjusted EBITDA as a percentage of revenue for Q4 2015 weakened by 2.2% from 16.9% to 14.7% over Q4 2014. The decrease was mainly due to higher adjusted SG&A expenses of $3.6 million for the reasons discussed above. This amount was partially offset by the $7.0 million increase in revenue and the resulting improvement in adjusted gross profit of $3.6 million.

Adjusted EBITDA grew by $14.8 million, or 74.3%, for the year ended December 31, 2015 compared with 2014. Adjusted EBITDA as a percentage of revenue for the year ended December 31, 2015 improved by 4.1% from 10.6% to 14.7% over the same period in 2014. The change was mainly due to the $49.3 million improvement in revenue and the resulting increase in adjusted gross profit of $24.2 million. These amounts were partially offset by higher adjusted SG&A expenses of $11.4 million for the reasons discussed above.

Income Tax Expense

For Q4 2015 and year ended December 31, 2015, DIRTT recorded an income tax recovery of $1.5 million and an expense of $0.3 million, respectively, compared to expenses of $0.5 million and $0.6 million, respectively, for the same periods in 2014. The recovery during Q4 2015 was partially due to the recognition of previously unrecognized deferred tax assets of $5.3 million, of which $4.0 million was recognized in the statement of income and comprehensive income and $1.3 million was recognized directly in equity, as it was assessed as probable that future taxable profits will be generated. The recognition was based on DIRTT's taxable income generated in the current year as well as on anticipated future taxable income. The recovery was partially offset by the income tax provision of our US subsidiary.

As at December 31, 2015, the Company has consolidated loss carry forwards of $15.9 million and US$4.1 million (2014 - $20.6 million and US$4.6 million) for the Canadian and US operating segments, respectively. These losses will expire in the years 2030 to 2033.

Summary of Quarterly Results

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
	($ thousands, except per share amounts)							
Revenue	64,988	62,070	52,866	56,701	57,945	46,651	42,218	40,515
Adjusted gross profit % [1]	45.1%	45.8%	42.0%	43.2%	44.4%	42.3%	40.7%	43.5%
Operating income (loss)	7,370	6,257	(1,131)	3,730	6,580	1,301	(1,579)	998
Adjusted EBITDA [1] [2]	9,573	11,198	2,324	8,689	9,793	5,259	1,149	3,715
Adjusted EBITDA as a % of revenue [1]	14.7%	18.0%	4.4%	15.3%	16.9%	11.3%	2.7%	9.2%
Net income (loss)	9,127	5,446	(1,363)	4,682	6,553	1,526	(2,055)	(70)
Net income (loss) per share - basic and diluted	0.11	0.07	(0.02)	0.06	0.09	0.02	(0.03)	(0.00)

Note:

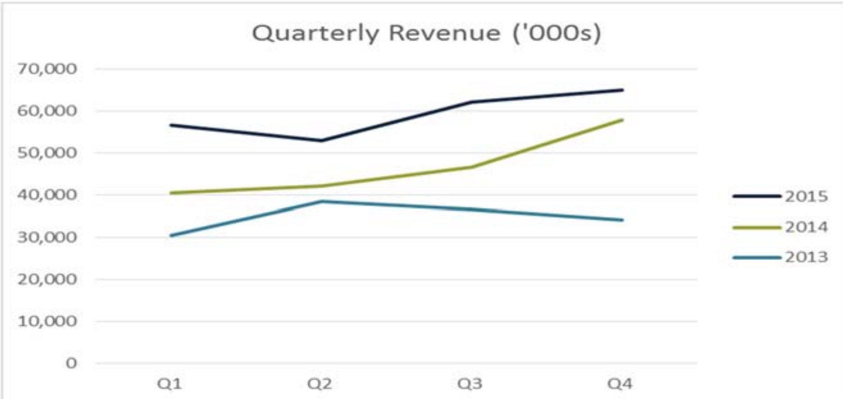
(1) See "Non-IFRS Measures".

(2) The sum of Adjusted EBITDA for the four quarters of 2015 will not sum to $34,709 due to the non-cash one-time commission adjustment of $2,925 in Q4 2015. See "Non-IFRS Measures".

Non-Cash One-Time Commission Adjustment Details

During Q4 2015, DIRTT recognized $2.9 million in a non-cash one-time adjustment related to its over-accrual of commission expense owing to its sales and business development personnel. The adjustment made in Q4 2015 was to reflect the actual amount of commission earned during the year.

Trends



DIRTT's business historically demonstrates some seasonality. The first quarter and fourth quarter have historically shown a small slowdown related to winter weather conditions and holiday schedules. However, this trend was not as prevalent in 2014 and 2015 as it has been in years past.

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 significantly 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, 2015.

As at December 31,	2015	2014	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Current assets					
Cash and cash equivalents	91,405	39,836	51,569	129%	See "Liquidity and Capital Resources"
Trade and other receivables	23,574	28,425	(4,851)	(17%)	Reflects improvement in collection of receivables
Inventory	21,619	15,097	6,522	43%	Reflects increase in raw material purchases and work in progress as at December 31, 2015
Prepaids and other current assets	1,614	1,853	(239)	(13%)	Insignificant change
	138,212	85,211			
Current liabilities					
Trade accounts payable and other liabilities	23,597	23,990	(393)	(2%)	Reflects timing of payment of payables and other liabilities
Customer deposits	7,094	7,271	(177)	(2%)	Insignificant change
Current portion of long-term debt	3,663	3,516	147	4%	Insignificant change
	34,354	34,777			
Working capital					
(Current assets minus Current liabilities)	103,858	50,434	53,424	106%	

As at December 31,	2015	2014	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Non-current assets					
Property, plant and equipment	48,236	35,661	12,575	35%	Reflects additions of $18.3 million (mostly manufacturing equipment and leasehold improvements, rebuild of Chicago GLC) and foreign exchange adjustment of $3.1 million, partially offset by depreciation expense of $8.7 million and a loss on disposal of $0.1 million
Intangible assets	15,225	11,523	3,702	32%	Reflects additions of $7.5 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $3.8 million
Note receivable	443	465	(22)	(5%)	Reflects scheduled repayments during 2015
Deferred tax assets	7,279	2,099	5,180	247%	Reflects recognition of previously unrecognized deferred tax assets of $5.3 million from our Canadian subsidiary
Goodwill	1,845	1,845	-	0%	No change
Other assets	1,010	624	386	62%	Reflects issuance of convertible note receivable of $0.2 million and additional rent deposits on new leases
Non-current liabilities					
Deferred tax liabilities	1,559	518	1,041	201%	General movement in temporary differences
Long-term debt	5,498	6,336	(838)	(13%)	Reflects an additional $2.1 million drawn on the capital financing facility in March 2015 and the impact of the strengthening of the US dollar on our US dollar denominated debt, offset by repayments of $4.2 million during 2015
Shareholders' equity					
Common share capital	193,984	143,386	50,598	35%	Reflects completion of bought deal financing in June 2015 ($40.6 million), stock options ($5.7 million) and warrants ($3.0 million) exercised during 2015, and recognition of deferred tax assets ($1.3 million)
Warrants	37	526	(489)	(93%)	Reflects warrants exercised during 2015
Contributed surplus	6,865	5,440	1,425	26%	Primarily due to stock-based compensation expense, partially offset by stock option exercises during 2015
Accumulated other comprehensive income	9,277	3,661	5,616	153%	Reflects the strengthening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(39,324)	(57,216)	17,892	(31%)	Net income from 2015

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Consolidated statements of cash flows

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Cash flows provided by operating activities (1) before changes in non-cash working capital	12,998	9,858	37,212	20,037
Changes in non-cash working capital	(5,517)	3,505	(4,519)	(6,248)
Net cash flows provided by operating activities	7,481	13,363	32,693	13,789
Add (deduct):				
Net cash flows used in investing activities	(8,202)	(4,914)	(25,746)	(15,549)
Net cash flows (used in) provided by financing activities	(190)	6,388	44,622	7,223
(Decrease) increase in cash and cash equivalents	(911)	14,837	51,569	5,463
Cash and cash equivalents, beginning of period	92,316	24,999	39,836	34,373
Cash and cash equivalents, end of period	**91,405**	**39,836**	**91,405**	**39,836**

Note:

(1) See "Non-IFRS Measures".

At December 31, 2015, we had $91.4 million in cash and cash equivalents compared with $39.8 million at December 31, 2014. At December 31, 2015, we also had access to an undrawn US$18.0 million revolving credit facility.

Looking forward to 2016, we expect to make continued investments in product and software development to further expand our solution 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 expect to complete 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 provide sufficient liquidity to meet our working capital requirements, which are mainly our accounts receivable, inventory, and accounts payable and other liabilities balances that arise in the normal course of our operations, our financial obligations, and the flexibility to pursue additional growth opportunities. In addition, we usually require a 50% deposit on certain orders which further reduces pressure on our working capital. We do not require deposits on US government orders or in 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 operating activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net income for the period	9,127	6,553	17,892	5,954
Adjustments:				
Depreciation included in cost of goods sold	887	666	3,040	2,236
Depreciation and amortization included in SG&A	2,706	1,347	9,508	7,650
Stock-based compensation	1,157	628	3,109	1,398
Loss on derecognition of liability	-	-	-	307
Loss (gain) on sale of property, plant and equipment	22	3	106	(17)
Finance cost	86	77	395	1,359
Income tax (recovery) provision	(1,501)	504	291	637
Recognition of deferred tax assets directly in equity	1,262	-	1,262	-
Non-cash foreign exchange loss	(594)	630	2,294	1,297
Net change in non-cash working capital	(5,517)	3,505	(4,519)	(6,248)
Cash taxes paid	(154)	(550)	(685)	(784)
Net cash flows from operating activities	**7,481**	**13,363**	**32,693**	**13,789**

Net cash flows provided by operating activities decreased by $5.9 million for Q4 2015 compared with Q4 2014. The decrease was mainly due to lower adjusted EBITDA of $0.2 million and an increased investment in non-cash working capital items of $9.0 million during Q4 2015, partially offset by the recognition of deferred tax assets directly into equity of $1.3 million and the non-cash one-time commission adjustment of $2.9 million.

Net cash flows provided by operating activities increased by $18.9 million for the year ended December 31, 2015 compared with the same period in 2014. The growth was mainly due to an increase in adjusted EBITDA of $14.8 million as a result of higher revenue and improved adjusted gross profit percentage and an improvement in changes in non-cash working capital items of $1.7 million for the year ended December 31, 2015.

Net cash flows used in investing activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Purchase of property, plant and equipment	(6,821)	(4,186)	(18,321)	(10,812)
Capital expenditures on internally generated intangible assets	(1,407)	(727)	(7,512)	(4,798)
Other	26	(1)	87	61
Net cash flows used in investing activities	**(8,202)**	**(4,914)**	**(25,746)**	**(15,549)**

Net cash flows used in investing activities for Q4 2015 increased by $3.3 million compared with Q4 2014. Net cash flows used in investing activities for the year ended December 31, 2015 increased by $10.2 million compared with the same period in 2014. The majority of the increases relate to investment in new manufacturing equipment necessary to expand our manufacturing capabilities, 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 offerings.

Net cash flows (used in) provided by financing activities

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Issuance of share capital on bought deal offering	-	-	43,211	-
Share capital issuance costs	-	-	(2,598)	-
Issuance of share capital on exercise of stock options	1,307	3,050	4,008	5,725
Issuance of share capital on exercise of warrants	-	249	2,542	863
Interest paid on convertible notes	-	-	-	(413)
Proceeds of long-term debt	-	3,785	2,079	3,785
Repayment of long-term debt	(1,411)	(619)	(4,225)	(2,448)
Interest paid on long-term debt	(86)	(77)	(395)	(289)
Net cash flows (used in) from financing activities	**(190)**	**6,388**	**44,622**	**7,223**

Net cash flows provided by financing activities for Q4 2015 decreased by $6.6 million compared with Q4 2014. The decrease was attributable to reduced proceeds from the exercise of stock options and warrants of $2.0 million and increased debt repayments of $0.8 million during Q4 2015 compared with Q4 2014. Q4 2014 had a draw of $3.8 million on the capital financing facility that did not occur during Q4 2015.

Net cash flows provided by financing activities for the year ended December 31, 2015 increased by $37.4 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), partially offset by a reduction in the draw on the capital financing facility of $1.7 million and higher debt and interest repayments of $1.5 million.

NON-IFRS MEASURES

Adjusted gross profit, adjusted gross profit %, adjusted SG&A, adjusted SG&A as a percentage of revenue, EBITDA, Adjusted EBITDA, Adjusted EBITDA as a percentage of revenue 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 improvements in gross profit.

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

	Q4 2015	**Q4 2014**	**Year ended December 31, 2015**	**2014**
			($ thousands)	
Revenue	64,988	57,945	236,625	187,329
Cost of goods sold ("COGS")	36,545	32,895	135,169	109,286
Gross profit	**28,443**	**25,050**	**101,456**	**78,043**
Gross profit %	**43.8%**	**43.2%**	**42.9%**	**41.7%**
Add back:				
Depreciation included in COGS	887	666	3,040	2,236
Adjusted gross profit	**29,330**	**25,716**	**104,496**	**80,279**
Adjusted gross profit %	**45.1%**	**44.4%**	**44.2%**	**42.9%**

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, stock-based compensation expense and non-cash one-time commission adjustment. 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 and comprehensive income.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
		($ thousands)		
SG&A	21,073	18,470	85,230	70,235
Less: Depreciation included in SG&A	(2,706)	(1,347)	(9,508)	(7,650)
Less: Stock-based compensation expense included in SG&A	(1,157)	(628)	(3,109)	(1,398)
Adjusted SG&A before non-cash one-time commission adjustment	**17,210**	**16,495**	**72,613**	**61,187**
Add: Non-cash one-time commission adjustment	2,925	-	-	-
Adjusted SG&A	**20,135**	**16,495**	**72,613**	**61,187**
Adjusted SG&A as a % of revenue	**31.0%**	**28.5%**	**30.7%**	**32.7%**

EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of revenue

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; non-cash one-time commission adjustment and any other non-recurring gains or losses. Adjusted EBITDA as a percentage of revenue is calculated as Adjusted EBITDA divided by revenue. 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 and comprehensive income.

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net income for the period	9,127	6,553	17,892	5,954
Add back (deduct):				
Finance costs	86	77	395	1,359
Interest income	(188)	(110)	(548)	(291)
Income tax (recovery) expense	(1,501)	504	291	637
Depreciation included in COGS	887	666	3,040	2,236
Depreciation and amortization included in SG&A	2,706	1,347	9,508	7,650
EBITDA	**11,117**	**9,037**	**30,578**	**17,545**
Stock-based compensation	1,157	628	3,109	1,398
Non-cash loss on derecognition of liability	-	-	-	307
Loss (gain) on sale of property, plant and equipment	22	3	106	(17)
Secondary offering transaction costs	-	-	-	508
Non-cash foreign exchange loss on debt revaluation	202	125	916	175
Adjusted EBITDA before non-cash one-time commission adjustment	**12,498**	**9,793**	**34,709**	**19,916**
Non-cash one-time commission adjustment	(2,925)	-	-	-
Adjusted EBITDA	**9,573**	**9,793**	**34,709**	**19,916**
Adjusted EBITDA as a % of revenue	**14.7%**	**16.9%**	**14.7%**	**10.6%**

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 operating activities" as presented in the consolidated statements of cash flows.

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

	Q4 2015	Q4 2014	Year ended December 31, 2015	2014
			($ thousands)	
Net cash flows provided by operating activities	7,481	13,363	32,693	13,789
Changes in non-cash working capital	5,517	(3,505)	4,519	6,248
Net cash flows provided by operating activities before changes in non-cash working capital	**12,998**	**9,858**	**37,212**	**20,037**

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, issuing equity has been our primary source of capital to date. The bought deal financing 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.

As at December 31, 2015 and December 31, 2014, our tangible net worth was $156.6 million and $91.6 million, respectively, which were in excess of the minimum tangible net worth of $60.0 million required by our lender.

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

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at December 31, 2015:

	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
			($ thousands)		
Operating lease	28,742	5,980	11,826	8,374	2,562
Trade accounts payable and other liabilities	23,597	23,597	-	-	-
Customer deposits	7,094	7,094	-	-	-
Interest obligations from current portion of long-term debt	257	257	-	-	-
Principal repayments from current portion of long-term debt	3,663	3,663	-	-	-
Interest obligations from long-term debt	213	-	213	-	-
Principal repayments from long-term debt	5,498	-	5,498	-	-
Purchase obligations	2,744	2,744	-	-	-
	71,808	**43,335**	**17,537**	**8,374**	**2,562**

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 16, 2016	December 31, 2015
Common shares	84,536,016	84,501,488
Stock options (1)	5,694,774	5,752,419
Warrants (1)	100,000	100,000
Total	90,330,790	90,353,907

Note:

(1) Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At December 31, 2015, a note receivable of $0.4 million (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, 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 was used by us to meet certain financial obligations.

One of our DPs, Lane Office, is owned by a director of the Company. During the years ended December 31, 2015 and 2014, the Company reported the following transactions with this DP:

For the year ended December 31,	**2015**	**2014**
	($ thousands)	
Revenue earned	6,035	5,073
Rebates paid	68	50
As at December 31,	**2015**	**2014**
Outstanding accounts receivable	370	409
Outstanding deposits received	237	274

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.

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 (see below) for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad, geographically dispersed customer base. 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, 2015, 64.1% (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. We consider trade receivables greater than 90 days as past due and as at December 31, 2015, the amount outstanding was $1.6 million, net of allowance for doubtful accounts of $0.7 million. We only provide for balances that we consider to be at risk of collection. 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, 2015 and 2014. We monitor our cash balances and cash flows generated from operations to meet our requirements. Our financial liabilities include trade accounts payable and other liabilities, customer deposits, and long-term debt. The ability to pay our obligations relies on collecting 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, 2015, term loans totaling $9.2 million (2014 - $9.5 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 and comprehensive income by $45,804 for the year ended December 31, 2015 (2014 - $47,318). 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 other 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. 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. We purchase a large portion of our inventory in US dollars. For the year ended December 31, 2015, with a 10% change in the US dollar (for obligations that would be retired in six months or less) and a 20% change in the US dollar (for obligations that would be retired in greater than six months), the impact to the net income and comprehensive income would be a decrease/increase of $0.3 million (2014 - $0.2 million).

Commodity price risk

In our business, we consume raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, glass, 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 16% 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, trade and other receivables, note receivable, trade accounts payable and other liabilities, customer deposits, and current and long-term debt.
- 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). The Company does not have any Level 2 financial instruments.

- 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). Level 3 financial instruments include convertible note receivable.
- 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 other liabilities, and customer deposits approximate fair value due to their short-term nature;
  (ii) The carrying amount of note receivable approximates fair value as it bears interest at a market rate, and have reasonable repayment terms;
  (iii) Included in other assets in 2015 is an insignificant convertible note receivable amount that does not have a quoted market price. The carrying amount of this convertible note receivable is carried at fair value using the Black-Scholes method and the value of the underlying entity by employing the best information available at each measurement date; and
  (iv) 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.

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$1.1 trillion in 2015, of which US$674 billion was attributable to non-residential building and US$423 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 forecast to grow to US$796 billion and US$512 billion, respectively, in 2019 *[Source: FMI US Markets Construction Overview 2016]*. We believe conventional construction activities are fraught with challenges including cost overruns, quality issues, labor shortages 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 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 United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (3) penetrating new vertical markets such as the healthcare, education 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 of which is the Corning® Willow® Glass initiative signed in February 2015.

With the recent launch of our residential and timber frame solutions at DIRTT Connext, we have officially entered into these markets. We do not expect to see meaningful revenue from these markets 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. In its review of the January 2016 numbers, the AIA suggested that falling energy prices and growing international economic concerns contributed to a very slight decline in billings growth. However, the volume of inquiries continued to increase, albeit at a slightly lower pace sequentially, following a generally positive performance in 2015. Both DIRTT and the AIA believe these overall numbers still point to solid fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

DIRTT believes that extended softness in global commodity pricing could result in continued weakness for the energy sector in 2016. The gross US$30.0 million contract announced in mid-2014 remains deferred until further notice. Growth in non-energy related sectors is more than offsetting the current weakness in the energy sector, which represents approximately 10% of our revenue in 2015. DIRTT anticipates some benefits from reduced input costs for raw materials and transportation charges as a result of softness in global commodity pricing for the first half and potentially the remainder of 2016.

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; DP rebates; and warranties.

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. We have two separate CGUs, DIRTT and Ice Edge. 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 and the senior management team. 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.

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.

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, 2018 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.

In January 2016 the IASB issued a new standard, IFRS 16 "Leases", which requires lessees to recognize assets and liabilities for most leases, eliminating the distinction between operating and finance leases. For lessors, there is little change to the existing accounting in IAS 17 "Leases". IFRS 16 supersedes IAS 17 and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied.

INTERNAL CONTROLS 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, 2015. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must also take into account resource constraints. A control system, including the Company's internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Management considers the non-cash one-time adjustment related to its over-accrual of commission expense as a deficiency, though not a material weakness, in DIRTT's internal controls over financial reporting. As a result of the foregoing deficiency, management has implemented procedures and additional resources to do a more rigorous review of commission expense and its related accrual.

There were no changes to the Company's internal controls over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

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, 2015 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, 2015, 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, 2015, we had an accumulated deficit of $39.3 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. 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;
- falling energy prices;
- 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, 2015, DIRTT and Ice Edge have 109 patents granted and 168 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 defense 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 largely depends on 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. We could realize losses 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).

DIRTT Environmental Solutions Ltd.

Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

March 16, 2016

/s/ Mogens Smed	*/s/ Scott Jenkins*	*/s/ Derek Payne*
Mogens Smed	Scott Jenkins	Derek Payne
Chief Executive Officer	President	Chief Financial Officer

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIRTT Environmental Solutions Ltd.

We have audited the accompanying consolidated financial statements of DIRTT Environmental Solutions Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DIRTT Environmental Solutions Ltd. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
March 16, 2016
Calgary, AB

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Financial Position
(Stated in thousands of Canadian dollars)

As at December 31,	Notes	2015	2014
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents		91,405	39,836
Trade and other receivables	5	23,574	28,425
Inventory	6	21,619	15,097
Prepaids and other current assets		1,614	1,853
		138,212	**85,211**
Non-current Assets			
Property, plant and equipment	7	48,236	35,661
Intangible assets	8	15,225	11,523
Note receivable	19	443	465
Deferred tax assets	11	7,279	2,099
Goodwill		1,845	1,845
Other assets		1,010	624
Total Assets		**212,250**	**137,428**
LIABILITIES			
Current Liabilities			
Trade accounts payable and other liabilities	9	23,597	23,990
Customer deposits		7,094	7,271
Current portion of long-term debt	10	3,663	3,516
		34,354	**34,777**
Non-current Liabilities			
Deferred tax liabilities	11	1,559	518
Long-term debt	10	5,498	6,336
Total Liabilities		**41,411**	**41,631**
SHAREHOLDERS' EQUITY			
Common share capital	12	193,984	143,386
Warrants		37	526
Share-based payment reserve		6,865	5,440
Accumulated other comprehensive income		9,277	3,661
Accumulated deficit		(39,324)	(57,216)
		170,839	**95,797**
Total Liabilities and Shareholders' Equity		**212,250**	**137,428**
Commitments	22		

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

Approved by the Directors:

/s/ Steve Parry
Director

/s/ Christine McGinley
Director

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Income and Comprehensive Income
(Stated in thousands of Canadian dollars)

		For the year ended December 31,	
		2015	**2014**
	Notes	$	$
Revenue	14	236,625	187,329
Cost of goods sold		135,169	109,286
Gross profit		**101,456**	**78,043**
Expenses			
Selling, general and administrative		85,230	70,235
Transaction costs		-	508
		85,230	**70,743**
Operating income		**16,226**	**7,300**
Other (income) expenses			
Foreign exchange gain		(1,910)	(649)
Loss (gain) on sale of property, plant and equipment		106	(17)
Loss on derecognition of liability		-	307
Interest income		(548)	(291)
Finance costs	15	395	1,359
		(1,957)	**709**
Income before tax		**18,183**	**6,591**
Income taxes			
Current tax expense	11	2,758	662
Deferred tax recovery	11	(2,467)	(25)
		291	**637**
Net income for the year		**17,892**	**5,954**
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		5,616	2,368
Comprehensive income for the year		**23,508**	**8,322**
Income per share			
Basic and diluted		0.22	0.08
Weighted average number of shares outstanding			
Basic	16	81,170,086	72,151,809
Diluted	16	83,010,711	74,042,768

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

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Changes in Equity
(Stated in thousands of Canadian dollars)

	Notes	Common share capital	Warrants	Equity component of convertible notes	Share-based payment reserve	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 income for the year		-	-	-	-	-	5,954	5,954
Other comprehensive income for the year		-	-	-	-	2,368	-	2,368
Conversion of convertible notes to common shares	12	10,946	-	(57)	-	-	-	10,889
Issued on exercise of warrants	12	1,438	(575)	-	-	-	-	863
Stock-based compensation		-	-	-	1,398	-	-	1,398
Issued on exercise of stock options	12	7,875	-	-	(2,150)	-	-	5,725
As at December 31, 2014		**143,386**	**526**	**-**	**5,440**	**3,661**	**(57,216)**	**95,797**
Net income for the year		-	-	-	-	-	17,892	17,892
Other comprehensive income for the year		-	-	-	-	5,616	-	5,616
Issued upon completion of bought deal offering	12	43,211	-	-	-	-	-	43,211
Share issuance costs	12	(2,598)	-	-	-	-	-	(2,598)
Issued on exercise of warrants	12	3,031	(489)	-	-	-	-	2,542
Stock-based compensation		-	-	-	3,109	-	-	3,109
Issued on exercise of stock options	12	5,692	-	-	(1,684)	-	-	4,008
Recognition of deferred tax assets	11	1,262	-	-	-	-	-	1,262
As at December 31, 2015		**193,984**	**37**	**-**	**6,865**	**9,277**	**(39,324)**	**170,839**

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

DIRTT Environmental Solutions Ltd.
Consolidated Statements of Cash Flows
(Stated in thousands of Canadian dollars)

		For the year ended December 31,	
		2015	**2014**
	Notes	$	$
Cash flows from operating activities:			
Net income for the year		17,892	5,954
Adjustments:			
Depreciation included in cost of goods sold		3,040	2,236
Depreciation and amortization included in selling, general and administrative		9,508	7,650
Stock-based compensation		3,109	1,398
Loss on derecognition of liability		-	307
Loss (gain) on sale of property, plant and equipment		106	(17)
Finance costs		395	1,359
Income tax provision		291	637
Recognition of deferred tax assets directly in equity		1,262	-
Non-cash foreign exchange loss on debt revaluation		916	175
Non-cash foreign exchange loss		1,378	1,122
Net change in non-cash working capital relating to operating activities	17	(4,519)	(6,248)
Cash taxes paid		(685)	(784)
Net cash flows provided by operating activities		**32,693**	**13,789**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(18,321)	(10,812)
Capital expenditures on internally generated intangible assets		(7,512)	(4,798)
Other		87	61
Net cash flows used in investing activities		**(25,746)**	**(15,549)**
Cash flows from financing activities:			
Issuance of share capital on bought deal offering		43,211	-
Share capital issuance costs		(2,598)	-
Issuance of share capital on exercise of stock options		4,008	5,725
Issuance of share capital on exercise of warrants		2,542	863
Interest paid on convertible notes		-	(413)
Proceeds of long-term debt		2,079	3,785
Repayment of long-term debt		(4,225)	(2,448)
Interest paid on long-term debt		(395)	(289)
Net cash flows provided by financing activities		**44,622**	**7,223**
Net increase in cash and cash equivalents		51,569	5,463
Cash and cash equivalents, beginning of year		39,836	34,373
Cash and cash equivalents, end of year		**91,405**	**39,836**
Cash and cash equivalents consists of:			
Cash		11,950	14,009
Short-term investments		79,455	25,827
		91,405	**39,836**

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

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.

DIRTT trades on the Toronto Stock Exchange ("TSX") under the symbol "DRT".

2. SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance
These consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 16, 2016.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Cash and cash equivalents

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

Inventory

Inventory is comprised of raw materials and work in progress. Inventory is valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost basis and includes costs of purchase (including taxes, transport, and handling) net of trade discounts received, costs of conversion and other costs incurred to bring inventory to its present condition and location. Net realizable value is based on an item's usability in the manufacture of the Company's products. Work in progress is valued at an estimate of cost, based on stage of completion.

Leases

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

Property, plant and equipment

Tangible assets (as listed below) are recognized when it is probable that the future economic benefits associated with the assets will flow to the Company and the cost of the assets can be reliably measured. The assets are recorded at cost less accumulated depreciation and/or accumulated impairment losses, if any. The cost of an asset is comprised of the purchase price (including import duties and taxes) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Repair and maintenance costs are recognized in the consolidated statement of income and comprehensive income as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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

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

Computer equipment	3 years
Computer software	1 year
Leasehold improvements	Over term of lease (1 to 7 years)
Manufacturing equipment	10 years
Office equipment	5 years
Tooling and prototypes	4 years
Building	25 years
Vehicles	3 years

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

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

Intangible assets

Intangible assets represent patents, trademarks and product and software development costs. Product development costs represent the costs incurred, primarily employment compensation, in relation to newly designed agile interior solutions. Software development costs represent the costs incurred, primarily employment compensation, in developing ICE software, which will support the business from the point of sale through delivery and installation by providing real-time 3D renderings, price quotations, and manufacturing data. These costs are capitalized up to the point of product and software commercialization. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

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

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

Expenditures arising on research activities are expensed in the period in which they are incurred.
The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

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

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

Patents and trademarks	10 years
Product and software development	5 years
Other intangibles	10 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets excluding goodwill

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

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

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

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

Provisions

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

Warranties

The Company provides a 10-year warranty on all products sold to its DPs' clients. Provisions for the expected cost of warranty obligations are recognized based on historical costs as a percentage of revenue and is recognized in cost of goods sold.

Distribution Partner Rebates

The Company has entered into a program with its DPs whereby DPs are eligible for a 5% rebate on projects that meet specific criteria. Rebates on eligible projects are recognized at the date of the sale to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent liabilities

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

Goodwill

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

Impairment of Goodwill

This requires an estimation of the recoverable amount of the groups of CGUs to which the goodwill is allocated. The Company has two separate CGUs, DIRTT and Ice Edge. Goodwill is allocated to DIRTT. The recoverable amounts for the CGUs have been determined based on value-in-use calculations, using discounted cash flow projections. Management has adopted a five-year projection period to assess each CGU's value-in-use. The short-term cash flow projections are based on financial budgets approved by the Board of Directors. Longer-term cash flow projections are based on estimated rates of growth of revenues and costs. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

Income taxes

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

Current tax

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

Deferred tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (Continued)

Deferred tax assets:

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

Deferred tax liabilities:

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

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

Revenue recognition

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

Sale of goods

The Company's revenues reflect sales to DPs for resale to their clients. The Company recognizes revenue when the product is shipped from the factory and when all of the following conditions are met:

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

Rendering of Services

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based transactions

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

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

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

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

Borrowing costs

Borrowing costs are interest and other costs incurred by the Company in connection with the borrowing of funds. Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings and finance charges in respect of finance leases. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

All other borrowing costs are recognized as an expense in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

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

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

Financial instruments

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

Financial assets

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

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

Effective interest method

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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

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

Loans and receivables

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

Impairment of financial assets

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

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

Derecognition of financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities." Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include trade accounts payable and other liabilities, customer deposits, and long-term debt.

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

Derecognition of financial liabilities

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

Equity Instruments

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

Accumulated other comprehensive income

Other comprehensive income includes foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries into Canadian dollars.

Earnings per share ("EPS")

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

Diluted EPS is calculated by adjusting the profit attributable to equity holders of the Company and number of common shares for the effects of dilutive options and the conversion of convertible warrants into potential common shares. The Company uses the treasury stock method of calculating diluted earnings per common share. Under this method, the exercise of stock options and convertible warrants is assumed to have occurred at the beginning of a period and the related common shares are assumed issued at that time.

The proceeds from exercise are assumed to have purchased common shares of the Company for cancellation at the average value price during the year. The incremental common shares (the difference between the number of common shares assumed issued and the number of common shares assumed purchased) are included in the denominator of the diluted earnings per common share calculation. The effects of anti-dilutive potential common shares are excluded in calculating diluted EPS. All options and other potential common shares are considered anti-dilutive when the Company is in a loss position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scientific research and experimental development

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Cash Generating Units

A CGU is the smallest identifiable group of assets that generate cash flows that are independent of cash flows from other assets or groups of assets. The Company has two separate CGUs, DIRTT and Ice Edge. 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 the Company is not yet committed to, or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate, as selected by management, based on the discounted cash flow model as well as the expected future cash inflows and the growth rate used.

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

Impairment of non-financial assets (Continued)

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

- Earnings Before Finance Costs and Taxes: management has made estimates relating to the amount and timing of revenue growth. For each 1% change in earnings before finance costs and taxes, the value-in-use of the Company's CGUs would be impacted by $7.2 million (2014 - $4.7 million); and
- Discount Rate: management has used a discount rate of 9.38% (2014 – 11.5%) per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, Company's cost of debt, and the tax rate in the local jurisdiction. An increase in the discount rate to 10.38% would reduce the value-in-use of the Company's CGUs by $22.4 million (2014 – $14.4 million). A decrease in the discount rate to 8.38% would increase the value-in-use of the Company's CGUs by $29.7 million (2014 - $18.1 million).

Share-based transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the share option. (See Note 13).

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. (See Note 11).

Useful lives of property, plant and equipment and intangible assets

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

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

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

Allowance for doubtful accounts
The Company makes allowance for doubtful accounts based on an assessment of the recoverability of its trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables. (See Note 5).

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

Warranties
Provisions for warranties are made using the best estimate of the amount expected to be claimed based on historical experience. The Company has determined based on historical experience that warranty and deficiency claims occur within a relatively short period from the initial sale (faulty products are generally identified during product installation) and are usually settled within three months. The Company reviews the adequacy of these warranties provisions at the end of each reporting period.

4. RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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, 2018 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.

In January 2016, the IASB issued a new standard, IFRS 16 "Leases", which requires lessees to recognize assets and liabilities for most leases, eliminating the distinction between operating and finance leases. For lessors, there is little change to the existing accounting in IAS 17 "Leases". IFRS 16 supersedes IAS 17 and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. The Company is currently assessing the impact of this standard.

5. TRADE AND OTHER RECEIVABLES

As at December 31,	2015	2014
	($ thousands)	
Trade receivables	24,158	24,427
Other receivables	164	4,734
	24,322	29,161
Allowance for doubtful accounts	(748)	(736)
	23,574	28,425

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

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

	Total	Current	31-60 days	61-90 days	Greater than 90 days
			($ thousands)		
As at December 31, 2015	23,574	12,305	7,769	1,854	1,646
As at December 31, 2014	28,425	16,981	7,093	2,901	1,450

5. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Company considers trade receivables greater than 90 days as past due. See Note 21 for a discussion on their collectability.

Reconciliation of allowance for doubtful accounts is as follows:

As at December 31,	2015	2014
	($ thousands)	
Opening balance	736	621
Provided for during the year	-	111
Recovery	(32)	(42)
Written off during the year	(81)	-
Foreign exchange revaluation	125	46
Closing balance	748	736

6. INVENTORY

As at December 31,	2015	2014
	($ thousands)	
Raw material	20,046	14,142
Allowance for obsolescence	(457)	(295)
Work in progress	2,030	1,250
	21,619	15,097

Cost of sales for the year ended December 31, 2015 includes the write-down of the value of specific inventory items of $0.2 million (2014 - $41,000 recovery). During the year ended December 31, 2015, $69.0 million (2014 - $55.4 million) of inventory was consumed as cost of sales.

7. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Computer software	Leasehold improvements	Manufacturing equipment	Office equipment	Tooling and prototypes	Building	Vehicles	Total
				($ thousands)					
Cost									
At December 31, 2013	**4,147**	**1,686**	**21,373**	**18,260**	**1,036**	**6,274**	**6,716**	**493**	**59,985**
Additions	397	92	4,128	5,456	-	561	118	60	10,812
Disposals	-	-	(630)	(124)	-	-	-	-	(754)
Exchange differences	32	7	893	404	17	52	609	28	2,042
At December 31, 2014	**4,576**	**1,785**	**25,764**	**23,996**	**1,053**	**6,887**	**7,443**	**581**	**72,085**
Additions	1,030	752	6,626	8,491	-	647	726	49	18,321
Disposals	-	-	(758)	(232)	-	-	-	-	(990)
Exchange differences	74	16	2,463	942	40	134	1,437	63	5,169
At December 31, 2015	**5,680**	**2,553**	**34,095**	**33,197**	**1,093**	**7,668**	**9,606**	**693**	**94,585**
Accumulated depreciation and impairment									
At December 31, 2013	**3,228**	**1,588**	**10,138**	**7,889**	**798**	**5,091**	**850**	**417**	**29,999**
Depreciation expense	588	190	2,669	2,108	110	433	279	89	6,466
Disposals	-	-	(624)	(107)	-	-	-	-	(731)
Exchange differences	31	7	328	149	13	45	91	26	690
At December 31, 2014	**3,847**	**1,785**	**12,511**	**10,039**	**921**	**5,569**	**1,220**	**532**	**36,424**
Depreciation expense	622	140	4,106	2,777	98	544	343	41	8,671
Disposals	-	-	(730)	(90)	-	-	-	-	(820)
Exchange differences	73	18	1,071	430	34	121	264	63	2,074
At December 31, 2015	**4,542**	**1,943**	**16,958**	**13,156**	**1,053**	**6,234**	**1,827**	**636**	**46,349**
Net book value									
At December 31, 2014	729	-	13,253	13,957	132	1,318	6,223	49	35,661
At December 31, 2015	1,138	610	17,137	20,041	40	1,434	7,779	57	48,236

8. INTANGIBLE ASSETS

	Product development	Software development	Patents and trademarks	Other intangibles	Total
			($ thousands)		
Cost					
At December 31, 2013	**1,775**	**17,197**	**2,319**	**470**	**21,761**
Additions	888	3,230	680	-	4,798
Exchange differences	-	-	1	43	44
At December 31, 2014	**2,663**	**20,427**	**3,000**	**513**	**26,603**
Additions	2,305	4,054	1,153	-	7,512
Exchange differences	-	-	2	99	101
At December 31, 2015	**4,968**	**24,481**	**4,155**	**612**	**34,216**
Amortization and impairment					
December 31, 2013	**797**	**9,942**	**816**	**94**	**11,649**
Amortization expense	226	2,915	230	49	3,420
Exchange differences	-	-	-	11	11
At December 31, 2014	**1,023**	**12,857**	**1,046**	**154**	**15,080**
Amortization expense	264	3,227	329	57	3,877
Exchange differences	-	-	-	34	34
At December 31, 2015	**1,287**	**16,084**	**1,375**	**245**	**18,991**
Net book value					
At December 31, 2014	1,640	7,570	1,954	359	11,523
At December 31, 2015	3,681	8,397	2,780	367	15,225

9. TRADE ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at December 31,	**2015**	**2014**
	($ thousands)	
Trade payables	5,567	11,572
Trade payable accruals	9,808	6,198
Commissions payable	2,885	3,147
Current tax liabilities	2,374	243
Provisions	783	814
Other	2,180	2,016
	23,597	23,990

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

10. LONG-TERM DEBT

As at December 31,	2015	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%.	1,011	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.	5,382	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%.	2,768	2,610
The entire balance was repaid during 2015.	-	384
The entire balance was repaid during 2015.	-	5
	9,161	9,852
Less: Current portion of long-term debt	(3,663)	(3,516)
Long-term debt	5,498	6,336

As at December 31, 2015, the Company has available a revolving operating facility of US$18.0 million. At December 31, 2015 and 2014, $nil had been borrowed against the revolving operating facility. Advances under the revolving operating facility are subject to interest at the lender’s prime rate plus 0.6% for Canadian dollar advances and the US prime rate plus 0.6% for US dollar advances and are repayable at any time.

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

As at December 31,	2015	2014
	($ thousands)	
Within one year	3,663	3,516
After one year but not more than five years	5,498	6,336
Total	9,161	9,852

11. INCOME TAXES

A) Provision for income taxes

	For the year ended December 31,	
	2015	2014
	($ thousands)	
Current tax expense	2,758	662
Deferred tax recovery	(2,467)	(25)
Income tax (recovery) expense	291	637

B) Reconciliation of income taxes

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

	For the year ended December 31,	
	2015	2014
	($ thousands)	
Net income before tax	18,183	6,591
Canadian statutory rate	26.01%	25.21%
Expected income tax	4,730	1,662
Effect on taxes resulting from:		
Non-deductible expenses	207	290
Research and development pools	-	(177)
Non-deductible stock-based compensation	809	352
Tax rate impacts	417	80
True up of prior year tax expense	527	(358)
Unrecognized deferred tax assets	-	(1,601)
Change in unrecognized deferred tax assets	(6,452)	-
Other	53	389
Income tax (recovery) expense	291	637

11. INCOME TAXES (CONTINUED)

C) Deferred tax assets

	Loss carryforwards	Share issue costs	R&D pools	Miscellaneous	Total
		($ thousands)			
At December 31, 2013	**3,171**	**-**	**1,027**	**212**	**4,410**
(Charged) credited to the consolidated statement of income (loss) and comprehensive income (loss)	(2)	-	(341)	93	(250)
At December 31, 2014	**3,169**	**-**	**686**	**305**	**4,160**
Credited to the consolidated statement of financial position	-	1,262	-	-	1,262
Credited (charged) to the consolidated statement of income and comprehensive income	3,053	440	1,619	(133)	4,979
At December 31, 2015	**6,222**	**1,702**	**2,305**	**172**	**10,401**

D) Deferred tax liabilities

	Property, plant and equipment	Intangible assets	Compound financial instruments	Total
		($ thousands)		
At December 31, 2013	**593**	**2,071**	**371**	**3,035**
(Credited) charged to the consolidated statement of income (loss) and comprehensive income (loss)	(327)	242	(371)	(456)
At December 31, 2014	**266**	**2,313**	**-**	**2,579**
Charged to the consolidated statement of income and comprehensive income	1,157	945	-	2,102
At December 31, 2015	**1,423**	**3,258**	**-**	**4,681**

As at December 31,	**2015**	**2014**
Net deferred tax assets	5,720	1,581
Which comprises:		
Consolidated net deferred tax assets	7,279	2,099
Consolidated net deferred tax liabilities	(1,559)	(518)
	5,720	1,581

11. INCOME TAXES (CONTINUED)

E) Unrecognized deferred tax assets

	Loss carryforwards	Share issue costs	R&D pools	Miscellaneous	Total
		($ thousands)			
At December 31, 2013	**6,361**	**1,968**	**476**	**496**	**9,301**
Movement during 2014	(2,353)	(439)	689	516	(1,587)
At December 31, 2014	**4,008**	**1,529**	**1,165**	**1,012**	**7,714**
Movement and recognition during 2015	(4,008)	(1,529)	(1,165)	(1,012)	(7,714)
At December 31, 2015	**-**	**-**	**-**	**-**	**-**

As at December 31, 2014, the Company had unrecognized deferred tax assets of $7.7 million. During 2015, $2.4 million of unrecognized deferred tax assets were utilized by the Company, which reduced the balance to $5.3 million. As at December 31, 2015, the Company recognized all of its remaining unrecognized deferred tax assets as it has been assessed as probable that future taxable profits will be generated. The recognition was based on the Company's taxable income generated in the current year as well as on anticipated future taxable income. Of the $5.3 million, $1.3 million was recognized directly in equity as it relates to share issuance costs previously reported in equity, and the remainder to the statement of income and comprehensive income.

Tax loss carryforwards

As at December 31, 2015, the Company has consolidated loss carryforwards of $15.9 million and US$4.1 million (2014 - $20.6 million and US$4.6 million). These losses will expire in the years 2030 to 2033.

12. SHAREHOLDERS' CAPITAL

A) Authorized shares

Unlimited number of voting common shares.

B) Issued and outstanding

($ in thousands, except share amounts)	Number of shares	Amount $
At December 31, 2013	**68,868,617**	**123,127**
Conversion of convertible notes into common shares - principal (1)	4,715,091	10,674
Conversion of convertible notes into common shares - accrued interest (1)	95,510	215
Reclassification of equity component of convertible notes (1)	-	57
Issued on exercise of Series A broker warrants (2)	25,000	88
Issued on exercise of convertible notes warrants (3)	646,386	1,350
Issued on exercise of stock options	2,245,944	7,875
At December 31, 2014	**76,596,548**	**143,386**
Issued on completion of bought deal offering (4)	5,175,000	43,211
Share issuance costs (4)	-	(2,598)
Issued on exercise of convertible notes warrants (3)	605,263	1,472
Issued on exercise of Series A broker warrants (2)	313,450	1,097
Issued on exercise of Series B broker warrants (5)	130,500	462
Issued on exercise of stock options	1,680,727	5,692
Recognition of deferred tax assets (6)	-	1,262
At December 31, 2015	**84,501,488**	**193,984**

(1) Conversion of the remaining US$10.0 million convertible note plus accrued interest of the original US$20.0 million convertible note financing that was completed on December 6, 2012.

(2) Conversion of the remaining Series A broker warrants issued in 2009 for cash proceeds of $1.1 million (2014 - $0.1 million).

(3) Conversion of the remaining convertible notes warrants issued in 2012 for cash proceeds of $1.1 million (2014 - $0.8 million).

(4) 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.

(5) Conversion of the outstanding Series B broker warrants issued in 2011 for cash proceeds of $0.4 million (2014 - $nil).

(6) Relates to deferred tax and transaction costs recognized directly into equity. See Note 11 for further details.

13. SHARE-BASED TRANSACTIONS

The Company has a stock option plan which is approved by the Board of Directors whereby the aggregate number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares as at the time of grant of any options. Options granted under the plan generally have a term of five years and vest 1/3 every year over a three-year period from the date of grant. For the year ended December 31, 2015, 3.0 million options were granted at a weighted average exercise price of $6.10 (2014 – 2.7 million at $3.56) and 1.7 million options were exercised (2014 – 2.2 million).

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

	Number of options	Weighted average exercise price $
Outstanding at December 31, 2013	**4,315,867**	**2.33**
Granted	2,741,650	3.56
Exercised	(2,245,944)	2.55
Forfeited	(145,006)	3.24
Expired	(45,750)	2.63
Outstanding at December 31, 2014	**4,620,817**	**2.92**
Granted	2,970,000	6.10
Exercised	(1,680,727)	2.38
Forfeited	(154,571)	4.32
Expired	(3,100)	2.50
Outstanding at December 31, 2015	**5,752,419**	**4.68**
Exercisable at December 31, 2015	**1,160,681**	**2.71**

Range of exercise prices outstanding at December 31, 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 $**
$1.50 - $3.49	615,618	1.7	1.86	546,154	1.5	1.73
$3.50 - $5.49	2,219,801	3.5	3.59	614,527	3.5	3.59
$5.50 - $7.01	2,917,000	4.6	6.10	-	-	-
Total	**5,752,419**			**1,160,681**		

13. SHARE-BASED TRANSACTIONS (CONTINUED)

Range of exercise prices outstanding at December 31, 2014:

	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	856,150	2.4	1.50	583,240	2.4	1.50
$2.00 - $2.99	1,254,917	1.0	2.54	1,129,316	0.7	2.50
$3.00 - $4.00	2,509,750	4.5	3.59	3,333	3.7	3.00
Total	**4,620,817**			**1,715,889**		

The fair value of each stock option was estimated on the date of grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	For the year ended December 31,	
	2015	**2014**
Expected option term (years)	3.5	5
Weighted average expected volatility	48.35%	51.54%
Expected dividend yield	N/A	N/A
Weighted average risk-free interest rate	0.49%	1.53%
Expected forfeiture %	5%	5%
Weighted average fair value of option	$ 2.16	$ 1.63

14. REVENUE

	For the year ended December 31,	
	2015	**2014**
	($ thousands)	
Sale of goods	229,517	184,183
Rendering of services	7,108	3,146
	236,625	187,329

15. FINANCE COSTS

Finance costs comprise the following amounts:

	For the year ended December 31,	
	2015	2014
	($ thousands)	
Accreted/ accrued interest (non-cash):		
Convertible notes [(1)]	-	657
Convertible notes [(1)]	-	413
Credit facilities	395	289
	395	1,359

[(1)] As previously discussed in Note 12, the Company converted the remaining portion of these convertible notes in 2014 and as a result, no convertible notes remain outstanding as of December 31, 2014.

16. BASIC AND DILUTED INCOME PER SHARE

The calculation of basic and diluted income per share for the year ended December 31, 2015 was based on the net income of $17.9 million (2014 – $6.0 million), and a weighted average number of common shares outstanding of 81.2 million (2014 – 72.2 million).

	For the year ended December 31,	
	2015	2014
Weighted average shares outstanding	81,170,086	72,151,809
Stock options	1,697,830	1,050,889
Convertible warrants	142,795	840,070
Diluted shares outstanding	83,010,711	74,042,768

For the year ended December 31, 2015, 4,054,589 options (2014 – 3,569,928) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

17. CHANGE IN NON-CASH WORKING CAPITAL

	For the year ended December 31,	
	2015	2014
	($ thousands)	
Trade and other receivables	4,851	(11,259)
Inventory	(6,522)	(3,721)
Prepaids and other current assets	239	(795)
Other assets	(386)	(102)
Trade accounts payable and other liabilities	(2,524)	10,728
Customer deposits	(177)	(1,099)
	(4,519)	(6,248)

18. SEGMENT REPORTING

The Company operates in two principal geographic locations, Canada and the United States ("US"), and has one operating segment. Currently, all revenue from international projects are included in the US revenue amount as these projects are sold by US-based DPs and are delivered to international locations. 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 year ended December 31,	
	2015	**2014**
	($ thousands)	
Canada	44,919	42,631
US	191,706	144,698
	236,625	187,329

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

As at December 31,	2015	2014
	($ thousands)	
Canada	44,290	31,753
US	22,026	17,900
	66,316	49,653

The amounts above exclude note receivable and deferred tax assets.

19. 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 December 31, 2015 the balance outstanding was $0.4 million (December 31, 2014 - $0.5 million).

One of the Company's DPs is owned by a director of the Company. The Company reported the following activities with this DP during the respective periods:

For the year ended December 31,	**2015**	**2014**
	($ thousands)	
Revenue earned	6,035	5,073
Rebates paid	68	50
As at December 31,	**2015**	**2014**
Outstanding accounts receivable	370	409
Outstanding deposits received	237	274

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.

Compensation of key management personnel

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

	For the year ended December 31,	
	2015	**2014**
	($ thousands)	
Compensation including bonuses	3,545	3,232
Stock-based compensation	1,943	1,222
	5,488	4,454

20. CAPITAL MANAGEMENT

As at December 31, 2015, the Company has $170.8 million (2014 - $95.8 million) of total capital resources, comprised of Shareholders' Equity. The Company also has total debt of $9.2 million (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.

The Company sets the amount of capital in proportion to risk and based on the availability of funding sources. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

20. CAPITAL MANAGEMENT (CONTINUED)

As a young growth company, issuance of equity has been the primary source of capital to date. Additional debt and/or equity financing may be pursued in future as deemed appropriate to balance debt and equity. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares, take on additional debt or sell assets to reduce debt.

As at December 31, 2015 and 2014, the Company's tangible net worth was $156.6 million and $91.6 million, respectively, which were in excess of the minimum tangible net worth of $60.0 million required by the Company's lender.

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

21. 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.

Credit risk

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

The Company's credit risk is primarily concentrated in its trade receivables. The amounts disclosed in the consolidated statement of financial position are net of allowances for doubtful accounts, estimated by the management of the Company based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce its risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance (see below) 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 year ended December 31, 2015 and 2014.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (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 December 31, 2015, 64.1% (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. The Company considers trade receivables greater than 90 days as past due and as at December 31, 2015, the amount outstanding was $1.6 million, net of allowance for doubtful accounts of $0.7 million. The Company only provides for balances it considers to be at risk of collection. As a result, the Company believes that its exposure to credit risk is limited.

The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies. The carrying amount of financial assets represents the maximum credit exposure and therefore the credit risk at the reporting date was:

As at December 31,	2015	2014
	($ thousands)	
Cash and cash equivalents	91,405	39,836
Trade and other receivables	23,574	28,425
	114,979	68,261

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements.

The Company has the following financial liabilities at the reporting dates:

As at December 31, 2015	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	Greater than 5 years
			($ thousands)			
Trade accounts payable and other liabilities and purchase obligations	23,597	26,341	26,341	-	-	-
Customer deposits	7,094	7,094	7,094	-	-	-
Operating leases	28,742	28,742	5,980	6,123	14,077	2,562
Current and long-term debt	9,161	9,631	3,920	2,799	2,912	-
	68,594	71,808	43,335	8,922	16,989	2,562

As at December 31, 2014	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 5 years	Greater than 5 years
			($ thousands)			
Trade accounts payable and other liabilities and purchase obligations	22,933	23,818	23,818	-	-	-
Customer deposits	7,271	7,271	7,271	-	-	-
Operating leases	19,297	19,297	3,604	3,570	8,999	3,124
Current and long-term debt	9,852	10,475	3,813	2,742	3,920	-
	59,353	60,861	38,506	6,312	12,919	3,124

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

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

Interest rate risk

Certain of the Company's financial liabilities are subject to interest charges at floating rates, and are exposed to fluctuations in interest rates. At December 31, 2015, term loans totaling $9.2 million (2014 - $9.5 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 and comprehensive income by $45,804 for the year ended December 31, 2015 (2014 - $47,318). An equal decrease in rates would generate an equal amount of interest savings.

Foreign exchange risk

The Company's financial instruments are exposed to currency fluctuations as it purchases a portion of its inventory in foreign currencies. This risk is mitigated as the Company's business does not require high levels of inventory on hand. Quick turnover of inventory minimizes the effect of any such changes in exchange rates. Historically, the majority (approximately 80%) of the Company's revenue is collected in USD. Some of the Company's costs are also incurred in USD. As a result, the Company is exposed to fluctuations in the US dollar against the Canadian dollar which could have a positive or negative impact on its revenue and costs. The recent strengthening of the USD versus the Canadian dollar has had a positive impact on revenue but a negative impact on costs.

The Company's financial instruments are exposed to fluctuations in the USD. The table below details the Company's exposure to currency risk at the reporting dates and a sensitivity analysis to changes in currency. (A 10% change in foreign currency was used for obligations that would be retired in six months or less and a 20% change in foreign currency for obligations that would be retired in greater than six months.) The sensitivity analysis includes USD-denominated monetary items and adjusts their translation at period end for their respective change in the USD. For the respective weakening of the USD, there would be an equal and opposite impact on net income and comprehensive income.

Foreign exchange risk (Continued)

	Amount (USD)	Change in currency	Effect of net income and comprehensive income for the year ended December 31, 2015
	($ thousands)	%	($ thousands)
Cash and cash equivalents	10,665	10.0	1,066
Trade and other receivables, net of deposits	12,755	10.0	1,276
Trade accounts payable and other liabilities	(9,739)	10.0	(974)
Current portion of debt (less than six months)	(1,070)	10.0	(107)
Long-term portion of debt (greater than six months)	(4,931)	20.0	(986)
	7,680		275

Commodity price risk

The Company consumes raw materials such as aluminum, hardware, wood and veneer, plastic, electrical, paint and powder, and fabric and vinyl. Aluminum represents the largest component of the Company's raw materials consumption. Generally, the Company's aluminum inventory is low as it has a fast turnaround time for the majority of its projects. This is a low risk to DIRTT but aluminum prices can fluctuate and represents approximately 16% of its overall cost of goods sold.

Fair value of financial instruments

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

- Level 1 financial instruments are those which can be derived from quoted market prices (unadjusted) in active markets for similar financial assets or liabilities. Level 1 financial instruments include cash and cash equivalents, trade and other receivables, note receivable, trade accounts payable and other liabilities, customer deposits, and current and long-term debt.
- Level 2 financial instruments are those which can be derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company does not have any Level 2 financial instruments.
- Level 3 financial instruments are those derived from valuation techniques that include inputs for the financial asset or liability which are not based on observable market data (unobservable inputs). Level 3 financial instruments include convertible note receivable.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (Continued)

- 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 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 other liabilities; and customer deposits approximate fair value due to their short-term nature;
b) The carrying amount of note receivable approximates fair value as it bears interest at a market rate, and have reasonable repayment terms;
c) Included in other assets in 2015 is an insignificant convertible note receivable amount that does not have a quoted market price. The carrying amount of this convertible note receivable is carried at fair value using the Black-Scholes method and the value of the underlying entity by employing the best information available at each measurement date; and
d) 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.

22. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company rents facilities and capital assets under operating lease commitments with respect to certain premises, equipment and vehicles, and has continuing contractual commitments for operating expenses.

As at December 31, 2015, annual future non-cancellable operating lease commitments require annual payments as follows:

As at December 31,	2015	2014
	($ thousands)	
Within one year	5,980	3,604
After one year but not more than five years	20,200	12,569
More than five years	2,562	3,124
	28,742	19,297

Contingent liabilities

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