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 8, 2017, and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2016 compared to the year ended December 31, 2015 (the "Financial Statements"), 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, 2016 (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 2017 and beyond; project timetables; the benefits of the DIRTT Movers Program; the anticipated use of our credit facilities; comments with respect to the new GLC in London, England; 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 and Canadian 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, the US and any other jurisdictions where we currently or may do 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

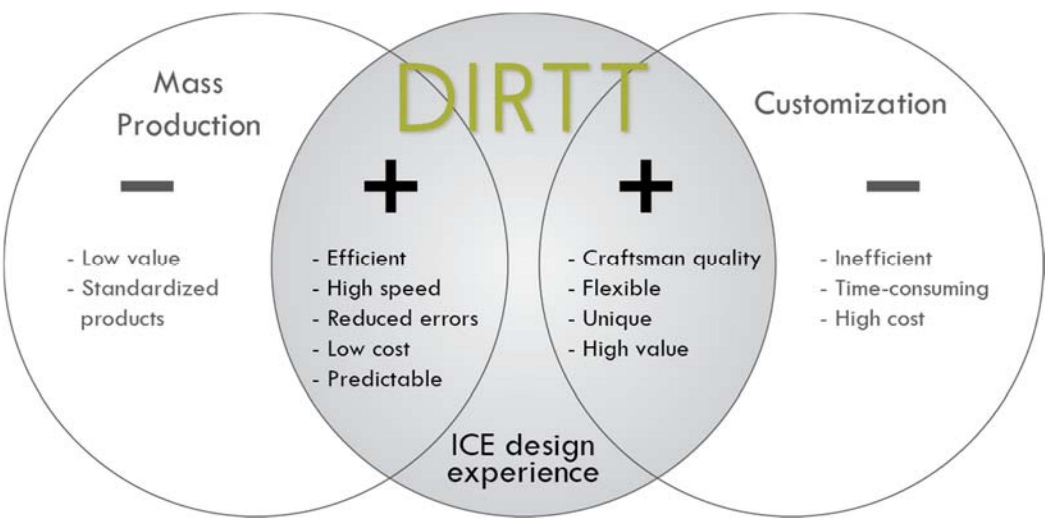
Certain market and industry data contained in this MD&A is based upon information from government or other third party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third party publications and reports do not guarantee 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.

OVERVIEW

DIRTT combines its proprietary ICE® 3D design, configuration and manufacturing software ("ICE" or "ICE Software") with integrated in-house manufacturing of its innovative prefabricated custom solutions and an extensive Distribution Partner ("DP") network. Our DPs are located throughout the United States, Canada and select international markets. DIRTT's suite of innovative prefabricated interior construction solutions includes DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings, DIRTT Flooring, DIRTT Timber Frame and related complementary products (collectively, the "DIRTT Solutions"). We support our DPs with local DIRTT sales team members, industry specialists and business development resources. Our DPs, in turn, are required to invest in their own regional DIRTT-focused team consisting of, at a minimum, a DIRTT champion (sales role), DIRTT project manager and DIRTT designer. In addition, our DPs are required to invest in a DIRTT Green Learning Center ("GLC"), which is a display area to showcase DIRTT Solutions locally. DIRTT and our DPs utilize ICE to communicate, present, design, visualize in 3D, configure, price, engineer, specify, order and manage projects. 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.

By Doing It Right This Time we mean we feel there is a better way to build. We are working to create a positive shift in the construction industry by placing as much value on the environment and people using spaces as we do on beautiful and functional design. Our goal is to build and deliver complete, engaging, well-designed, customized, sustainable, high-quality spaces faster, more efficiently and with a better overall customer experience than is available with traditional construction methods. Traditional construction often entails cost overruns, inconsistent quality, delays and significant material waste. Our proprietary ICE Software delivers an automated manufacturing process (two-week or better delivery target) that significantly decreases the construction timeframe 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. By providing realistic 3D visualization, cost certainty and significantly reduced lead times, 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 form a comprehensive offering that allows us to address the challenges associated with traditional interior construction methods. Below is a brief description of DIRTT Solutions:

DIRTT Walls	Pre-fabricated, customized interior wall solutions that support new and legacy furniture and can support integrated technology for commercial, healthcare, education, hospitality and residential applications.
DIRTT Power	Quick-connect, pre-tested adaptable power solutions which are pre-fabricated to arrive on-site in correct lengths with factory components ready to go, which eliminates waste and provides future flexibility.
DIRTT Networks	Pre-fabricated, pre-tested and componentized approach to building sustainable network infrastructure. DIRTT recently added Passive Optical Network ("PON") capabilities to its suite of solutions. This networking solution uses single mode fiber cables instead of traditional copper cables. Similar to DIRTT Power, data infrastructure components arrive on the job site pre-cut to correct lengths and with components ready to go.
DIRTT Millwork	Fully customized modular cabinetry that works for any application including healthcare, corporate, education, hospitality and residential. DIRTT Millwork integrates seamlessly with DIRTT Walls and other solutions.
DIRTT Floors	DIRTT's low-profile access floor supports modular power and network infrastructure, which in turn provides flexibility for future adaptation and reconfiguration in both existing facilities and new buildings.
DIRTT Ceilings	Pre-fabricated custom ceilings that integrate with DIRTT Wall solutions (or on their own), increase speech privacy and reduce noise.
DIRTT Timber	Pre-fabricated timber construction for interior mezzanines, structural elements for low-rise buildings and other architectural elements that integrate with DIRTT Walls and other solutions. Completely customized cross-laminated timber and glulam timber solutions.

The process chart below compares a typical conventional construction approach versus the DIRTT approach. With the power of ICE, DIRTT removes the need for several steps required in conventional construction, allowing for faster project completion.

Our revenues reflect sales to DPs for resale to their clients. We are not dependent on any one DP, DP's client, vertical market, industry segment 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, but not limited to, healthcare, education, financial services, government and military, manufacturing, non-profit, energy, professional services, retail, and technology. As at December 31, 2016, our DPs had delivered DIRTT Solutions to more than 7,400 of their clients. In 2016, our average project size (on a per project order basis) was approximately $87,000 (2015 - $87,000), with the single largest project (on a per project order basis) being $1.2 million (2015 - $2.0 million).

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

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
		($ thousands)		
Canada	10,013	14,560	35,207	44,919
US	67,859	50,428	231,371	191,706
International	452	-	452	-
	78,324	**64,988**	**267,030**	**236,625**

Revenue from certain international projects was included in the revenue amount for the US as these projects were sold by US-based DPs and delivered to international locations. During 2016 we also had a few small international projects sold directly by DIRTT. Below is a breakdown of international projects delivered/sold during the respective periods. The amount for Middle East (below) is included as part of revenue for the US. The amounts for Asia and Europe makes up the revenue for International.

	Q4	Q4	Year ended December 31,	
	2016	2015	2016	2015
			($ thousands)	
Middle East	727	1,679	6,129	8,162
Asia	389	-	389	-
Europe	63	-	63	-
	1,179	**1,679**	**6,581**	**8,162**
% of total revenue	**1.5%**	**2.6%**	**2.5%**	**3.4%**

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 were 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 and up to December 31, 2016, 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, 2016**	**Future estimated spending**
Product development	$ 10,000	$ 13,712	$ -
New sales and business development initiatives	3,000	8,395	-
ICE software development	8,000	6,920	1,080
	21,000	29,027	1,080
Working capital purposes - including short-term investments	19,600	11,573	(1,080)
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.

KEY METRICS AND TRENDS

Key metrics that we use include revenue; revenue growth; gross profit; gross profit as a percentage of revenue (“Gross profit %”); Adjusted gross profit; adjusted gross profit as a percentage of revenue (“Adjusted gross profit %”); selling, general and administrative expenses (“SG&A”); SG&A as a percentage of revenue (“SG&A %”); Adjusted SG&A; adjusted SG&A as a percentage of revenue (“Adjusted SG&A %”); adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”); and adjusted EBITDA as a percentage of revenue (“Adjusted EBITDA %). Adjusted gross profit, Adjusted gross profit %, Adjusted SG&A, Adjusted SG&A %, Adjusted EBITDA and Adjusted EBITDA % are non-IFRS measures. Non-IFRS measures 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. 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. See “Non-IFRS Measures” for a reconciliation of these non-IFRS measures.

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.

Our business model requires that we invest in our capacity well in advance of demand to ensure we can fulfill the expectations for quick delivery of DIRTT Solutions to our customers. Therefore, during each of 2016, 2015 and 2014 we made significant investments in additional factory space and infrastructure in the US. We expect to continue to grow in future periods, which will result in the need for additional investments in factory space and equipment. We expect that these additional costs for factory and equipment expansion can be absorbed by revenue growth, and allow gross profits to remain relatively consistent over time.

Revenue

We have two main revenue streams: 1) the sale, transportation and installation of DIRTT Solutions, which makes up the majority of our revenue; and 2) the 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 in programs to support our existing DPs throughout North America; (ii) expanding into new geographies, such as the Middle East, India, Southeast Asia and United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (iii) penetrating new vertical markets such as the healthcare, education and residential sectors; (iv) continuing to invest in ICE and innovative construction solutions such as Leaf™ (a mechanism that can be used to create collapsible walls), 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 integration of ICE with SAP’s enterprise resource planning system (ERP) completed in January 2017. 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 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 over the past couple of years has had a positive impact on our overall revenue.

Gross Profit / 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 raw materials 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 facilities.

Adjusted gross profit is calculated 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. See "Non-IFRS Measures" for a reconciliation of adjusted gross profit and adjusted gross profit %.

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. 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 timing of monthly manufacturing volumes tend to generate higher gross profit than those where the timing of manufacturing levels varies significantly from month to month. Product/service revenue mix also tends to have an impact on gross profit; a simplistic product/service mix can result in lower gross profit, while "full solution" or more comprehensive product/service revenue mixes tend to have higher gross profit. 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 raw materials used in production. 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, and general production efficiencies that are achieved on increasing revenue levels. 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 as it is directly related to the manufacturing process and 50% is for manufacturing overhead salaries, shop supervisors and other and is not affected by volume.

On some of our US dollar-denominated projects, certain of the manufacturing costs are incurred in our Canadian facilities. In addition, we also have US dollar-based production costs at our manufacturing facilities in Savannah, Georgia and Phoenix, Arizona. Furthermore, some of our largest raw material costs incurred at all of our manufacturing facilities are also denominated in US dollars. As a result, we have exposure 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 / SG&A % / Adjusted SG&A / Adjusted SG&A %

SG&A expenses include wages, salaries and benefits, sales commissions, marketing and sales, professional services, facility rent and utilities, stock-based compensation, office expenses, and depreciation and amortization of non-manufacturing- related assets.

Marketing and sales expenses include promotional costs for launching and operating GLCs, client tours, and attendance at trade shows. We have invested, and expect to continue to invest, in these costs as we increase the number of marketing programs to increase our customer base and to further expand our North American infrastructure and presence in international markets.

Our recent growth in SG&A expenses is mainly due to higher headcount to support our growth and business development initiatives, and we expect that trend to continue. Our business strategy is to continue to be a leading technology-enabled manufacturer of custom construction solutions. For us to achieve our goals, we anticipate continued substantial investments in technology, research and development and additional personnel, resulting in increased SG&A expenses. Despite these increases, we expect that these additional SG&A costs can be absorbed by revenue growth, and allow SG&A% to decline over time.

Adjusted SG&A is calculated as SG&A before the inclusion of depreciation and amortization of non-manufacturing-related assets, non-cash stock-based compensation expense and the non-cash one-time commission adjustment. Adjusted SG&A % is calculated as adjusted SG&A divided by revenue. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and Adjusted SG&A %.

The strengthening of the US dollar has had a negative impact on overall SG&A costs as certain of these costs (wages, salaries and benefits, sales commissions, marketing and sales, professional services, facility rent and utilities and office expenses) are incurred in US dollars.

Adjusted EBITDA / Adjusted EBITDA %

Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization ("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; the non-cash one-time commission adjustment and any other non-recurring gains or losses. Adjusted EBITDA % is calculated as Adjusted

EBITDA divided by revenue. See “Non-IFRS Measures” for a reconciliation of Adjusted EBITDA and Adjusted EBITDA%.

FOURTH QUARTER 2016 HIGHLIGHTS

Financial:

- Revenue increased by $13.3 million, or 20.5% over Q4 2015, to $78.3 million;
- Gross profit increased by $5.5 million, or 19.3% over Q4 2015, to $33.9 million;
- Gross profit % decreased by 50 basis points from Q4 2015 from 43.8% to 43.3%;
- Adjusted gross profit was $34.8 million and adjusted gross profit % was 44.4% (see “Non-IFRS Measures”);
- Adjusted EBITDA was $11.2 million and adjusted EBITDA % was 14.4% (see “Non-IFRS Measures”); and
- Net income was $4.3 million and net income per share was $0.06.

FULL YEAR 2016 HIGHLIGHTS

In addition to the highlights reported in the fourth quarter of 2016, during the year ended December 31, 2016:

Financial:

- Revenue increased by $30.4 million, or 12.8% over 2015, to $267.0 million;
- Gross profit increased by $14.8 million, or 14.6% over 2015, to $116.3 million;
- Gross profit % increased by 60 basis points over 2015, growing from 42.9% to 43.5%;
- Recorded Adjusted gross profit of $119.5 million and Adjusted gross profit % of 44.7% (see “Non-IFRS Measures”);
- Achieved Adjusted EBITDA of $31.3 million and Adjusted EBITDA % of 11.7% (see “Non-IFRS Measures”); and
- Net income was $7.3 million and net income per share was $0.09.

Operational:

- Sales and marketing and business development head count increased by 13.7% over 2015 to 108;
- Opened DIRTT GLCs in London, England and Singapore to market to U.K., European, Middle Eastern and Asian markets;
- Announcement of 33% reduction in manufacturing lead times from three weeks to two weeks;
- Initiated the DIRTT Movers Program;
- Launched the DP GLC Loan Program; and
- Increased DP GLC investment by 15.0% over 2015.

NORMAL COURSE ISSUER BID

On January 6, 2017, we announced that we had received approval from the TSX to commence a normal course issuer bid (the “NCIB”) with respect to our common shares (the “Common Shares”). The NCIB commenced on January 10, 2017 and will terminate on the earlier of January 9, 2018; the date on which we have purchased the maximum number of Common Shares permitted under the NCIB; or the date on which the NCIB is terminated. Under the NCIB, we may purchase in the normal course through the facilities of the TSX up to 7,141,021 Common Shares. As of the date hereof, we have purchased 134,056 Common Shares at a weighted average price of $6.70 per Common Share, including brokerage fees, for a total cost of $0.9 million through the NCIB.

DIRTT CONNEXT™ - ANNUAL SALES, MARKETING & TRAINING INITIATIVE

DIRTT's largest and most important sales, marketing and training initiative, DIRTT Connext, occurs every June in Chicago. Held over a two-week period, DIRTT Connext coincides with NeoCon®, North America's largest commercial interiors exposition which typically attracts more than 50,000 design professionals. DIRTT hosts its own series of events before, during and after the three-day NeoCon event. In preparing for the event, each year DIRTT transforms its company-owned Chicago GLC to showcase its newest innovations and construction solutions to architects and designers, clients, investors and the media. DPs and DIRTT sales representatives also take part in comprehensive training sessions, hear from DIRTT's leadership team and key third parties, and network with colleagues all to strengthen their ability to succeed in their local markets. Our success relies heavily on the success of our DPs, and extensive training sessions for all team members and peer learning opportunities are an important aspect of DIRTT Connext.

This year DIRTT Connext expanded on how we use virtual reality to design built environments, and highlighted our ability to bring a residential look and feel into any space. The success of DIRTT Connext 2016 was highlighted by the 55% increase in attendance from our DPs and their team members. Increased DP participation reflects their recognition that attending the event provides a tangible business benefit. The number of visitors to our GLC (during the three-day open house) exceeded 4,000, consisting largely of architecture, interior design, facility management and procurement professionals. The total investment for DIRTT Connext in 2016 was $3.5 million, an increase of $1.2 million over 2015. While this investment is primarily recognized in Q2, DIRTT Connext's comprehensive sales and marketing initiatives significantly enhance regular marketing, training and communications efforts throughout the remainder of the year and beyond.

DIRTT MOVERS PROGRAM

In January 2016 DIRTT unveiled its DIRTT Movers Program. This program focuses on a select group of 18 highly promising DPs who demonstrated strong growth and exhibit many of the characteristics of DIRTT's best performing DPs. The DPs participating in the program are required to attend a series of training sessions and events, as well as commit the required resources to training and specific business development engagements. DIRTT, for its part, provides additional business development, marketing and strategic planning resources to support these DPs. From 2015 to 2016, total revenue growth from these 18 DPs was 27.9%. For 2017 DIRTT has identified 15 new DPs to participate in the 2017 DIRTT Movers Program, all of whom we believe, can achieve significant growth with added investment and support.

DP GLC LOAN PROGRAM

In November 2015 DIRTT unveiled a DP financial support program to drive expanding, updating and building out DP GLCs to ensure they are showcasing the latest DIRTT offerings and solutions. DIRTT and our DPs have seen an increase in local market interest and activity when a GLC expansion, update or new build-out takes place. The program provides a 36-month interest-free loan valued at up to $105,000 for DPs who invest in their GLC. The build-out/expansion must meet certain criteria including, but not limited to, showcasing solutions for healthcare, exhibiting Corning® Willow® Glass, and incorporating the full suite of DIRTT Solutions. The program was initially intended to run from November 2015 to May 2016 but based on requests from DPs has been extended to December 31, 2017. As at December 31, 2016, five US DPs and two Canadian DPs enrolled in the program for an outstanding loan balance of approximately $0.7 million.

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, 2016, 2015 and 2014.

	Year ended December 31,		
	2016	**2015**	**2014**
	($ thousands, except share and per share amounts)		
Operations			
Revenue	267,030	236,625	187,329
Operating income	12,681	16,226	7,300
Other income (expenses)	545	(1,957)	(709)
Net income	7,284	17,892	5,954
Net income per share			
Basic and diluted	0.09	0.22	0.08
Weighted average number of shares outstanding			
Basic	84,645,393	81,170,086	72,151,809
Diluted	85,692,458	83,010,711	74,042,768
As at December 31,	**2016**	**2015**	**2014**
	($ thousands)		
Financial position			
Property, plant and equipment	55,610	48,236	35,661
Intangible assets	19,961	15,225	11,523
Total assets	233,329	212,250	137,428
Current portion of long-term debt	5,091	3,663	3,516
Non-current financial liabilities			
Long-term debt	13,669	5,498	6,336
Total shareholders' equity	181,969	170,839	95,797

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, 2016 and 2015.

	Q4 2016	Q4 2015	Year ended December 31, 2016	2015
	($ thousands, except per share amounts)			
Revenue	78,324	64,988	267,030	236,625
Gross profit	33,924	28,443	116,272	101,456
Gross profit %	43.3%	43.8%	43.5%	42.9%
Adjusted gross profit (1)	34,759	29,330	119,450	104,496
Adjusted gross profit % (1)	44.4%	45.1%	44.7%	44.2%
SG&A	27,866	21,073	103,591	85,230
SG&A %	35.6%	32.4%	38.8%	36.0%
Adjusted SG&A (1)	23,810	20,135	87,467	72,613
Adjusted SG&A % (1)	30.4%	31.0%	32.8%	30.7%
Operating income	6,058	7,370	12,681	16,226
Adjusted EBITDA (1)	11,242	9,573	31,286	34,709
Adjusted EBITDA % (1)	14.4%	14.7%	11.7%	14.7%
Income tax expense (recovery)	1,812	(1,501)	4,852	291
Net income	4,345	9,127	7,284	17,892
Net income per share - basic and diluted	0.06	0.11	0.09	0.22

Note: (1) See "Non-IFRS Measures".

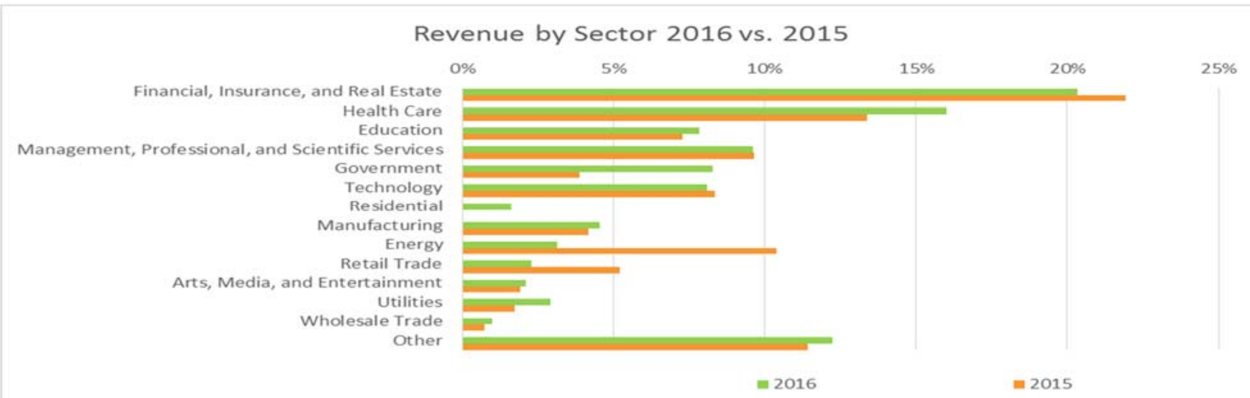
Revenue

Revenue increased by $13.3 million, or 20.5%, for Q4 2016 compared with Q4 2015. This increase was achieved despite continued challenges in the energy sector which declined as a percentage of revenue from 7% in 2015 to only 2% in the current period. This decrease was more than offset by a general increase in activity from small and medium-sized projects across a diverse range of industry segments including healthcare, which increased from 12% in Q4 2015 to 16% of revenue in Q4 2016; and government, which increased from 3% in Q4 2015 to 12% of revenue in Q4 2016. In addition, installations revenue in Q4 2016 increased by $2.2 million to $2.7 million, compared with $0.5 million in Q4 2015. The impact to the Canadian dollar value of US revenue was negligible as the average US dollar exchange rate was essentially flat, decreasing from 1.3352 in Q4 2015 to 1.3344 in Q4 2016.

Below is a breakdown of percentage revenue by sector for Q4 2016 versus Q4 2015:

Revenue increased by $30.4 million, or 12.8%, for 2016 compared with the same period in 2015. The 2015 period included revenue of $8.6 million (3.2% of total revenue) from the previously announced US$30.0 million US energy sector contract, compared to nil during 2016. This business was partially offset by the $4.3 million contribution (1.6% of total revenue) from the residential sector during 2016. The 2016 period reflects ongoing challenges in the energy sector, with revenue contribution from this segment declining from 10% of revenue in 2015 versus only 3% of revenue in 2016. These declines were more than offset by a general increase in activity from small and medium-sized projects, from a diverse range of industry segments. The stronger average US dollar versus the comparable period in 2015 (2016 – 1.3245; 2015 – 1.2785) also increased the Canadian dollar value of US revenue which contributed to the higher revenue in 2016.

Below is a breakdown of percentage revenue by sector for 2016 versus 2015:



Gross Profit / Adjusted Gross Profit / Gross Profit % / Adjusted Gross Profit %

Gross profit for Q4 2016 improved to $33.9 million from $28.4 million in Q4 2015, an increase of 19.3%. This increase was achieved despite a slight decline in gross profit % which declined by 50 basis points to 43.3% from 43.8%. The decrease in gross profit % was due primarily to changes in product/service revenue mix, greater volatility in the timing of monthly production volumes, and a higher level of installations revenue which typically brings a lower gross profit than our standard manufacturing process.

Adjusted gross profit for Q4 2016 improved to $34.8 million from $29.3 million for Q4 2015, an increase of 18.5%. However, adjusted gross profit % declined by 70 basis points to 44.4% from 45.1% for the same reasons discussed above with respect to gross profit. See “Non-IFRS Measures” for a reconciliation of adjusted gross profit and adjusted gross profit %.

Gross profit for 2016 improved to $116.3 million from $101.5 million in 2015, an increase of 14.6%. These results were achieved on higher revenues in the year as well as with gross profit % widening 60 basis points to 43.5% from 42.9%. Higher revenue levels, relatively steady timing of manufacturing volumes for most of 2016, combined with a diverse project mix, contributed to the increase in gross profit % in 2016.

Adjusted gross profit for 2016 improved to $119.5 million from $104.5 million in 2015, an increase of 14.3% with adjusted gross profit % widening 50 basis points to 44.7% from 44.2% for the same reasons discussed above with respect to gross profit. See “Non-IFRS Measures” for a reconciliation of adjusted gross profit and adjusted gross profit %.

The higher US dollar to Canadian dollar average exchange rate (2016 – 1.3245; 2015 – 1.2785) also contributed to increased gross profit and adjusted gross profit in 2016, as the positive impact on US dollar revenue exceeded the negative impact on US dollar-based production costs.

SG&A Expenses / Adjusted SG&A Expenses / SG&A % / Adjusted SG&A %

Selling, general and administrative (“SG&A”) % increased by 320 basis points from 32.4% to 35.6% in Q4 2016 compared with Q4 2015. SG&A expenses increased by $6.8 million, or 32.2%, for Q4 2016 compared with Q4 2015. The increase reflects DIRTT’s accelerated investment in long-term growth initiatives that were incurred in 2016. The most significant change can be attributed directly to sales-related efforts as salaries and commissions increased by $4.8 million. These costs reflect the addition of personnel focused on generating and supporting higher business volumes, and commissions on the higher revenue attained in the period. A portion of the increase in salaries and commissions during Q4 2016 was due to the non-cash one-time commission reduction of $2.9 million reported in Q4 2015. See “Non-Cash One-Time Commission Adjustment Details” below for more details. Other increases in SG&A in Q4 2016 included travel and marketing costs of $1.2 million, depreciation and amortization expense of non-manufacturing-related assets of $0.7 million, professional fees of $0.2 million, rent expense of $0.2 million, and $0.9 million in other operating expense items. These increases were partially offset by decreases in non-cash marketing promotional items of $0.7 million and stock-based compensation expense of $0.5 million. The increase in depreciation and amortization expense of non-manufacturing-related assets correlates with the increase in our investment in leasehold improvements and software and product development. The decrease in stock-based compensation expense was due to the granting of stock options in November 2016 that carried a lower Black-Scholes value than the August 2015 grant.

Adjusted SG&A % decreased slightly by 60 basis points from 31.0% to 30.4% in Q4 2016 compared with Q4 2015. Adjusted SG&A expenses increased by $3.7 million, or 18.3%, for Q4 2016 compared with Q4 2015. The reason for the increase is the same as discussed above with respect to SG&A, excluding the impact from increased non-cash depreciation and amortization of non-manufacturing-related assets, decreased stock-based compensation expense incurred in the period, and the non-cash one-time commission reduction of $2.9 million reported in Q4 2015. See “Non-IFRS Measures” for a reconciliation of adjusted SG&A and adjusted SG&A %.

SG&A % increased by 280 basis points from 36.0% to 38.8% in 2016 compared with 2015. SG&A expenses increased by $18.4 million, or 21.5%, for 2016 compared with 2015. The increase reflects DIRTT’s ongoing investment in long-term growth. The most significant changes can be attributed directly to sales and marketing-related efforts as salaries and commissions increased by $6.3 million and travel, marketing and trade show costs increased by $4.6 million, of which $1.2 million was related to the previously discussed DIRTT Connext event. The increase in salaries and commissions reflects additional personnel focused on generating and supporting higher business volumes. Other increases in SG&A in 2016 included depreciation and amortization expense of non-manufacturing-related assets of $2.8 million, software licenses and computer supplies of $1.1 million, rent expense of $0.9 million, stock-based compensation expense of $0.7 million, professional service fees of $0.6 million, and $1.4 million in other operating expense items.

Adjusted SG&A % increased by 210 basis points from 30.7% to 32.8% in 2016 compared with 2015. Adjusted SG&A expenses increased by $14.9 million, or 20.5%, for 2016 compared with 2015. The reason for the increase is the same as discussed above with respect to SG&A, excluding the impact from increased non-cash depreciation and amortization of non-manufacturing-related assets and stock-based compensation expense in the year. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and adjusted SG&A %.

The higher US dollar to Canadian dollar average exchange rate (2016 – 1.3245; 2015 – 1.2785) also contributed to the overall increase in SG&A and adjusted SG&A expenses across the organization for 2016, as certain of these expenditures are denominated in US dollars.

Adjusted EBITDA / Adjusted EBITDA %

Adjusted EBITDA increased by $1.7 million, or 17.4%, for Q4 2016 compared with Q4 2015. Adjusted EBITDA % for Q4 2016 weakened slightly by 30 basis points from 14.7% in Q4 2015 to 14.4%. The dollar increase was primarily due to higher adjusted gross profit of $5.4 million and partially offset by higher adjusted SG&A expenses of $3.7 million in Q4 2016.

Adjusted EBITDA decreased by $3.4 million, or 9.9%, for 2016 compared with 2015. Adjusted EBITDA % for 2016 weakened by 300 basis points from 14.7% in 2015 to 11.7%. The decrease in 2016 was mainly due to an increase in foreign exchange loss of $3.6 million and higher adjusted SG&A expenses of $14.9 million, partially offset by higher adjusted gross profit of $15.0 million. See "Non-IFRS Measures for a reconciliation of Adjusted EBITDA and Adjusted EBITDA %.

Gains or losses in foreign exchange ("FX") are primarily the result of the period end revaluation of monetary assets and liabilities held within our Canadian companies. The largest component of these assets and liabilities is our holdings of US dollar cash and cash equivalents. The increase in foreign exchange loss of $3.6 million is the result of significant fluctuations in the CAD-US exchange rate in the year-over-year periods. During 2015, the US dollar increased by $0.22 compared to year-end 2014, resulting in a $2.8 million gain on the revaluation of these monetary assets and liabilities. Conversely, during 2016, the US dollar depreciated by $0.04 compared to year-end 2015, resulting in a $0.8 million loss being recognized. These amounts exclude any gains or losses resulting from the revaluation of our US dollar-denominated long-term debt, as these amounts have been added back in the determination of Adjusted EBITDA as per reconciliation below.

	Q4 2016	Q4 2015	Variance	Year ended December 31, 2016	2015	Variance
			($ thousands)			
FX (gain) loss as reported	(68)	(176)	108	800	(1,910)	2,710
FX loss (gain) on debt revaluation	225	202	23	57	916	(859)
FX (gain) loss included in Adjusted EBITDA	**(293)**	**(378)**	**85**	**743**	**(2,826)**	**3,569**

Income Tax

Provision for income taxes comprises federal, state, local and foreign taxes based on pre-tax income. Income tax expense for the three months and year ended December 31, 2016 were $1.8 million and $4.9 million, respectively, compared with a recovery of $1.5 million and expense of $0.3 million, respectively, for the same periods in 2015, mainly reflecting the profitability of our US and Canadian subsidiaries during these periods. We expect this trend to continue for future periods.

As at December 31, 2016, DIRTT had consolidated loss carry forwards of $21.9 million and US$3.8 million (2015 - $15.9 million and US$4.1 million) for the Canadian and US operating segments, respectively. These losses will expire in the years 2024 to 2035. The change in the loss carry forwards from year to year is due to the differences in accounting and tax treatments of certain expenses. In addition, as at December 31, 2016, DIRTT also had scientific research and experimental development tax pool of $8.9 million (2015 - $7.0 million).

Summary of Quarterly Results

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
			($ thousands, except per share amounts)					
Revenue	78,324	71,531	61,252	55,923	64,988	62,070	52,866	56,701
Gross profit	33,924	30,955	27,327	24,066	28,443	27,799	21,413	23,801
Gross profit %	43.3%	43.3%	44.6%	43.0%	43.8%	44.8%	40.5%	42.0%
Adjusted gross profit % [(1)]	44.4%	44.3%	46.1%	44.4%	45.1%	45.8%	42.0%	43.2%
Operating income (loss)	6,058	5,919	(216)	920	7,370	6,257	(1,131)	3,730
Adjusted EBITDA [(1) (2)]	11,242	11,081	4,385	4,578	9,573	11,198	2,324	8,689
Adjusted EBITDA% [(1)]	14.4%	15.5%	7.2%	8.2%	14.7%	18.0%	4.4%	15.3%
Net income (loss)	4,345	4,029	(1,458)	368	9,127	5,446	(1,363)	4,682
Net income (loss) per share - basic and diluted	0.06	0.05	(0.02)	0.00	0.11	0.07	(0.02)	0.06

Note:

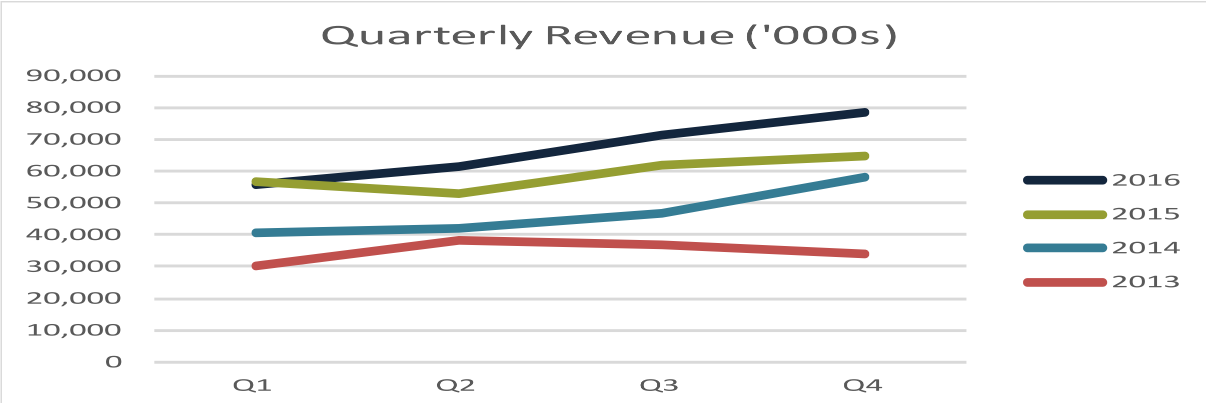
(1) See "Non-IFRS Measures".

(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



The construction industry historically sees seasonal slowdowns in the fourth and first quarters related to winter weather conditions and holiday schedules. DIRTT's business has followed this seasonality, though this trend was not as prevalent in our business during 2014, 2015 and 2016 as it has been in years past. That said, we still consider this potential seasonal slowdown as a factor that could impact DIRTT production levels.

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 timing of monthly manufacturing volumes tend to generate higher gross profit than those where the timing of manufacturing levels varies significantly from month to month. Product/service revenue mix also tends to have an impact on gross profit; a simplistic product/service revenue mix can result in lower gross profit, while "full solution" or more comprehensive product/service revenue mixes tend to have higher gross profit.

Changes in Financial Position

The following is a discussion of changes in the consolidated statement of financial position as at December 31, 2016.

As at December 31,	2016	2015	Change ($)	Change (%)	Explanation of changes
	($ thousands)				
Current assets					
Cash and cash equivalents	93,554	91,405	2,149	2%	See "Liquidity and Capital Resources"
Trade and other receivables	32,078	23,574	8,504	36%	Reflects higher revenue level during Q4 2016
Inventory	21,421	21,619	(198)	(1%)	Insignificant change
Prepaids and other current assets	2,058	1,614	444	28%	Reflects timing of pre-payment on various miscellaneous expenses
	149,111	138,212			
Current liabilities					
Trade accounts payable and other liabilities	27,206	23,597	3,609	15%	Reflects timing of payment of payables and other liabilities and increased activity in Q4 2016
Customer deposits	4,224	7,094	(2,870)	(40%)	Reflects timing and type of project orders at each period end
Current portion of long-term debt	5,091	3,663	1,428	39%	Reflects addition of the current portion of the new capital financing facility, offset by scheduled repayments in 2016
	36,521	34,354			
Working capital					
(Current assets minus Current liabilities)	112,590	103,858	8,732	8%	

As at December 31,	2016	2015	Change ($)	Change (%)	Explanation of changes
	($ thousands)				
Non-current assets					
Property, plant and equipment	55,610	48,236	7,374	15%	Reflects additions of $19.2 million (mostly manufacturing equipment and leasehold improvements including the annual refresh of DIRTT's Chicago GLC for DIRTT Connext), partially offset by depreciation expense of $11.1 million and foreign exchange loss of $0.7 million
Intangible assets	19,961	15,225	4,736	31%	Reflects additions of $9.1 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $4.4 million
Note receivable	-	443	(443)	(100%)	The entire outstanding balance was repaid in Q3 2016
Deferred tax assets	5,652	7,279	(1,627)	(22%)	Reflects year over year changes in temporary differences
Goodwill	1,845	1,845	-	0%	No change
Other assets	1,150	1,010	140	14%	Insignificant change
Non-current liabilities					
Deferred tax liabilities	1,170	1,559	(389)	(25%)	General movement in temporary differences
Long-term debt	13,669	5,498	8,171	149%	Reflects draw down of entire new capital financing facility of $13.4 million (US$10.0 million), offset by scheduled repayments
Shareholders' equity					
Common share capital	195,000	193,984	1,016	1%	Reflects stock option exercises during 2016
Warrants	37	37	-	0%	No change
Share-based payment reserve	10,253	6,865	3,388	49%	Reflects stock-based compensation expense, partially offset by stock option exercises during 2016
Accumulated other comprehensive income	8,719	9,277	(558)	(6%)	Reflects the softening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(32,040)	(39,324)	7,284	(19%)	Net income from 2016

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Consolidated statements of cash flows

	Q4 2016	Q4 2015	Year ended December 31, 2016	2015
		($ thousands)		
Cash flows provided by operating activities [1] before changes in non-cash working capital	10,819	11,920	26,394	34,825
Changes in non-cash working capital	(4,361)	(5,517)	(6,235)	(4,519)
Net cash flows provided by operating activities	6,458	6,403	20,159	30,306
Add (deduct):				
Net cash flows used in investing activities	(6,365)	(8,202)	(27,866)	(25,746)
Net cash flows provided by (used in) financing activities	5,068	(190)	10,296	44,622
Effect of foreign exchange on cash and cash equivalents	331	1,078	(440)	2,387
Increase (decrease) in cash and cash equivalents	5,492	(911)	2,149	51,569
Cash and cash equivalents, beginning of period	88,062	92,316	91,405	39,836
Cash and cash equivalents, end of period	**93,554**	**91,405**	**93,554**	**91,405**

Note: [1] See "Non-IFRS Measures".

At December 31, 2016, we had $93.6 million in cash and cash equivalents compared with $91.4 million at December 31, 2015. At December 31, 2016, we also had access to an undrawn US$18.0 million revolving credit facility. In March 2016, we signed a fourth amendment to the amended and restated loan agreement with our lenders which, among other things, provided us with an additional capital financing facility of US$10.0 million ($13.4 million), which was fully drawn as at December 31, 2016.

Looking forward to 2017, 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 will also continue to further invest in our existing GLCs to ensure that each location showcases the latest DIRTT Solutions. We completed the construction of our new GLC in London, England in September 2016, to better serve and support the significant market opportunity in the Middle East and Europe. The first phase of our Singapore GLC was also completed in 2016 to support opportunities in Southeast Asia. It is anticipated that projects in these new international markets will be serviced out of our existing manufacturing facilities.

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 2016	Q4 2015	Year ended December 31, 2016	2015
			($ thousands)	
Net income for the period	4,345	9,127	7,284	17,892
Adjustments:				
Depreciation included in cost of goods sold	835	887	3,178	3,040
Depreciation and amortization included in SG&A	3,365	2,706	12,307	9,508
Stock-based compensation	691	1,157	3,817	3,109
Finance cost	106	86	339	395
Income tax	1,812	(1,501)	4,852	291
Recognition of deferred tax assets directly in equity	(417)	1,262	(417)	1,262
Non-cash foreign exchange loss (gain)	977	(1,672)	1,074	(93)
Net change in non-cash working capital	(4,361)	(5,517)	(6,235)	(4,519)
Cash taxes paid	(901)	(154)	(6,097)	(685)
Other non-cash adjustments	6	22	57	106
Net cash flows provided by operating activities	**6,458**	**6,403**	**20,159**	**30,306**

Net cash flows provided by operating activities were flat in Q4 2016 when compared with Q4 2015. Net cash flows provided by operating activities decreased by $10.1 million for the year ended December 31, 2016 compared with the same period in 2015. The decrease was primarily due to lower adjusted EBITDA of $3.4 million, increased investment in non-cash working capital items of $1.7 million, and higher cash taxes paid of $5.4 million for the year ended December 31, 2016.

Net cash flows used in investing activities

	Q4 2016	Q4 2015	Year ended December 31, 2016	2015
			($ thousands)	
Purchase of property, plant and equipment	(3,937)	(6,821)	(19,154)	(18,321)
Capital expenditures on internally generated intangible assets	(2,432)	(1,407)	(9,167)	(7,512)
Other	4	26	455	87
Net cash flows used in investing activities	**(6,365)**	**(8,202)**	**(27,866)**	**(25,746)**

Net cash flows used in investing activities for Q4 2016 decreased by $1.8 million compared with Q4 2015. Net cash flows used in investing activities for the year ended December 31, 2016 increased by $2.1 million compared with the same period in 2015. 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, Calgary GLC and London GLC. 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, Corning® Willow® Glass and Leaf™ offerings.

Net cash flows provided by (used in) financing activities

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
			($ 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	431	1,307	1,004	4,008
Issuance of share capital on exercise of warrants	-	-	-	2,542
Proceeds of long-term debt	5,386	-	13,168	2,079
Repayment of long-term debt	(643)	(1,411)	(3,537)	(4,225)
Interest paid on long-term debt	(106)	(86)	(339)	(395)
Net cash flows provided by (used in) financing activities	**5,068**	**(190)**	**10,296**	**44,622**

Net cash flows provided by financing activities for Q4 2016 increased by $5.3 million compared with Q4 2015. The majority of the increase came from the final draw on the new US$10.0 million ($13.4 million) capital financing facility of $5.4 million during Q4 2016.

Net cash flows provided by financing activities for the year ended December 31, 2016 decreased by $34.3 million compared with the same period in 2015. During 2015, we completed a bought deal offering for net proceeds of $40.6 million that did not occur during 2016. The remainder of the decrease was attributable to reduced proceeds from the exercise of stock options and warrants of $5.5 million, and partially offset by an additional draw of $11.1 million on the new capital financing facility during 2016.

NON-IFRS MEASURES

Adjusted gross profit, Adjusted gross profit %, Adjusted SG&A, Adjusted SG&A %, Adjusted EBITDA, Adjusted EBITDA % and cash provided by operating activities before changes in non-cash working capital are non-IFRS measures.

Adjusted gross profit and Adjusted gross profit %

Adjusted gross profit is calculated as gross profit before deducting 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 as a primary indicator of our manufacturing and operating performance. As manufacturing volumes and revenue rise, production synergies tend to permit improvements in gross profit subject to variability in monthly manufacturing volumes and product/service revenue mix.

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

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
		($ thousands)		
Revenue	78,324	64,988	267,030	236,625
Cost of goods sold ("COGS")	44,400	36,545	150,758	135,169
Gross profit	**33,924**	**28,443**	**116,272**	**101,456**
Gross profit %	**43.3%**	**43.8%**	**43.5%**	**42.9%**
Add back:				
Depreciation included in COGS	835	887	3,178	3,040
Adjusted gross profit	**34,759**	**29,330**	**119,450**	**104,496**
Adjusted gross profit %	**44.4%**	**45.1%**	**44.7%**	**44.2%**

Adjusted SG&A and adjusted SG&A %

Adjusted SG&A is a measurement of our funded SG&A costs in the period, and is calculated as SG&A before deductions for non-cash depreciation and amortization of non-manufacturing-related assets, stock-based compensation expense, and the non-cash one-time commission adjustment. Adjusted SG&A % is calculated as Adjusted SG&A divided by revenue. We use this as a measure of the efficiency and effectiveness of our sales and marketing efforts and overall administrative support efforts by comparing them to prior period results.

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

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
			($ thousands)	
SG&A	27,866	21,073	103,591	85,230
Less: Depreciation included in SG&A	(3,365)	(2,706)	(12,307)	(9,508)
Less: Stock-based compensation expense included in SG&A	(691)	(1,157)	(3,817)	(3,109)
Adjusted SG&A before non-cash one-time commission adjustment	**23,810**	**17,210**	**87,467**	**72,613**
Add: Non-cash one-time commission adjustment	-	2,925	-	-
Adjusted SG&A	**23,810**	**20,135**	**87,467**	**72,613**
Adjusted SG&A %	**30.4%**	**31.0%**	**32.8%**	**30.7%**

Adjusted EBITDA and Adjusted EBITDA %

EBITDA represents an indication of the entity's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their age, technological validity, and management's estimate of their useful life. Accordingly, EBITDA is earnings before interest, taxes, depreciation and amortization.

Adjusted EBITDA is EBITDA plus non-cash foreign exchange gains or losses on debt revaluation; gains or losses on disposal of property, plant and equipment and intangible assets; write-off of property, plant and equipment and intangible assets; non-cash stock-based compensation expense; transaction costs; the non-cash one-time commission adjustment, and any other non-recurring gains or losses. Adjusted EBITDA % 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 Adjusted 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	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
			($ thousands)	
Net income for the period	4,345	9,127	7,284	17,892
Add back (deduct):				
Finance costs	106	86	339	395
Interest income	(143)	(188)	(605)	(548)
Income tax expense (recovery)	1,812	(1,501)	4,852	291
Depreciation included in COGS	835	887	3,178	3,040
Depreciation and amortization included in SG&A	3,365	2,706	12,307	9,508
EBITDA	**10,320**	**11,117**	**27,355**	**30,578**
Stock-based compensation	691	1,157	3,817	3,109
Non-cash foreign exchange loss on debt revaluation	225	832	57	916
Other non-cash adjustments [1]	6	(608)	57	106
Adjusted EBITDA before non-cash one-time commission adjustment	**11,242**	**12,498**	**31,286**	**34,709**
Non-cash one-time commission adjustment	-	(2,925)	-	-
Adjusted EBITDA	**11,242**	**9,573**	**31,286**	**34,709**
Adjusted EBITDA %	**14.4%**	**14.7%**	**11.7%**	**14.7%**

Note: [1] Other non-cash adjustments include asset impairment and loss on sale of property, plant and equipment.

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. It 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 2016	Q4 2015	Year ended December 31, 2016	2015
			($ thousands)	
Net cash flows provided by operating activities	6,458	6,403	20,159	30,306
Changes in non-cash working capital	4,361	5,517	6,235	4,519
Net cash flows provided by operating activities before changes in non-cash working capital	**10,819**	**11,920**	**26,394**	**34,825**

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.

To date, issuing equity has been our primary source of capital. 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.

In March 2016, we signed a fourth amendment to the amended and restated loan agreement with our lender, which included a reduction of interest rates on outstanding and any future advances and a new capital financing facility of US$10.0 million. Debt covenants were adjusted to increase the minimum tangible net worth from $60.0 million to $135.0 million and to add a maximum capital expenditure limit of $40.0 million for 2016. As at December 31, 2016 and December 31, 2015, the Company’s tangible net worth was $168.0 million and $156.6 million, respectively. As at December 31, 2016 and December 31, 2015, we were in compliance with all of our lender’s covenants.

“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, 2016:

	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
			($ thousands)		
Operating lease	31,005	6,285	11,114	9,321	4,285
Trade accounts payable and other liabilities	27,206	27,206	-	-	-
Customer deposits	4,224	4,224	-	-	-
Interest obligations from current portion of long-term debt	577	577	-	-	-
Principal repayments from current portion of long-term debt	5,091	5,091	-	-	-
Interest obligations from long-term debt	684	-	593	91	-
Principal repayments from long-term debt	13,669	-	9,473	4,196	-
Purchase obligations	3,469	3,469	-	-	-
	85,925	**46,852**	**21,180**	**13,608**	**4,285**

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 8, 2017	December 31, 2016
Common shares	84,961,444	84,878,891
Stock options [1]	6,690,468	6,867,752
Warrants [1]	-	100,000
Total	**91,651,912**	**91,846,643**

Note: [1] Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

A note receivable was due from Mogens Smed ("Mr. Smed") who is a shareholder, officer and a director of DIRTT, and bore interest at 5% with monthly payments of $3,750, including interest, and was 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. During the third quarter of 2016, the balance of this note receivable was fully repaid and the security was released. At December 31, 2016, the balance outstanding was $nil (December 31, 2015 - $442,662).

Two of the Company's officers and directors, Mr. Smed and Mr. Scott Jenkins, each separately purchased DIRTT Solutions from the Company for personal projects commencing in the fourth quarter of 2016 at prices which are project dependent that are available to employees of the Company. Mr. Smed's personal project is ongoing while Mr. Jenkins' project was completed in the fourth quarter. Details of the revenue earned and the deposits received by the Company pursuant to these projects is outlined below for the periods indicated:

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
		($ thousands)		
Revenue earned	85	-	85	-
As at December 31,			**2016**	**2015**
Deposits received			188	-

One of our DPs, Lane Office Furniture Inc., is owned by a director of the Company, Gregory Burke. The Company reported the following activities with this DP during the respective periods:

	Q4	Q4	Year ended December 31,	
	2016	**2015**	**2016**	**2015**
		($ thousands)		
Revenue earned	2,958	1,643	10,455	6,035
Rebates paid	8	8	78	68
As at December 31,			**2016**	**2015**
Outstanding accounts receivable			560	370
Deposits received			-	237

All transactions with Lane Office Furniture Inc. have occurred in the normal course of operations at arm's length and are based on standard commercial terms.

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 and trade and other receivables. 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 had minimal bad debt expense for the years ended December 31, 2016 and 2015. 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, 2016, 50.7% (2015 – 64.1%) of that balance is covered by EDC. The majority 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, 2016, the amount outstanding was $7.1 million, net of allowance for doubtful accounts of $0.7 million (2015 - $1.6 million, $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, 2016 and 2015. 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, 2016, term loans totaling $18.8 million (2015 - $9.2 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 $93,802 for the year ended December 31, 2016 (2015 - $45,804). An equal decrease in rates would generate an equal amount of interest savings.

Foreign exchange risk

We are primarily 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, 2016, 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 $1.1 million (2015 - $0.3 million).

Commodity price risk

In our business, we consume raw materials such as aluminum, hardware, wood and veneer, timber, plastic, electrical, glass, paint and powder, and fabric and vinyl. Aluminum represents the largest component of our raw materials consumption at approximately 15% of our overall cost of goods sold. 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.

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, 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). The Company does not have any Level 3 financial instruments.
- Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risk. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The fair values of our financial instruments were determined as follows:

  (i) The carrying amounts of cash and cash equivalents, trade and other receivables, trade accounts payable and other liabilities, and customer deposits approximate fair value due to their short-term nature;
  (ii) 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$1.2 trillion in 2016, of which US$700 billion was attributable to non-residential building and US$463 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$837 billion and US$541 billion, respectively, in 2020 *[Source: FMI US Markets Construction Overview 2017]*. 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 in programs to support our existing DPs throughout North America; (2) expanding into new geographies, such as the Middle East, India, Southeast Asia 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 innovative construction solutions such as Leaf, 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 integration of ICE with SAP's enterprise resource planning system (ERP) completed in January 2017.

With the recent launch of our residential and timber frame solutions, we have officially entered into these markets. We do not expect to see meaningful revenue from these markets in the near term. However, we completed our first significant residential contract for 16 duplexes in Alaska during Q2 2016.

We believe DIRTT Solutions and the resulting more efficient and cost-effective construction experience are a superior alternative to conventional construction across all sectors of the construction industry, and that a continued increase in global construction activity can be expected to result in an ongoing improvement to our revenue. We plan to invest additional resources in a variety of initiatives, including continuing to develop and expand ICE and new DIRTT Solutions and test projects, to pursue further opportunities in the healthcare, education, government, corporate 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 US non-residential billings activity could trend. The most recent January billings and design activity numbers showed a slight decline in billings activity nationally and regionally in the Midwest. However, the strong readings in project inquiries and new design contracts will likely help future billings activity. 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 2017 and beyond. Growth in non-energy-related sectors is offsetting the current weakness in the energy sector, which represented approximately 3% of our revenue in 2016 (2015 – 10%).

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:

In December 2016, the IFRS Interpretations Committee ("IFRIC") of the IASB issued IFRS Interpretation, IFRIC 22 "Foreign Currency Transactions and Advance Consideration". IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this interpretation.

In December 2016, the IASB issued narrow-scope amendments to a total of three standards as part of its annual improvements process, "Annual Improvements to IFRS (2014-2016)". 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, 2017 and 2018; 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 June 2016, the IASB issued amendments to IFRS 2 "Share-based Payment". The amendments clarified the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of these amendments.

In April 2016, the IASB issued amendments to IFRS 15 "Revenue from Contracts with Customers". In May 2014, the IASB and the US Financial Accounting Standards Board issued their joint revenue recognition standard, IFRS 15, 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). The amendments noted in April 2016 clarified three aspects of the standard (identifying performance obligations, principal versus agent considerations and licensing) and provided some transition relief for modified contracts and completed contracts. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. IFRS 15 introduces a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:
1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;

3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company does not anticipate this standard will have a material impact on its consolidated financial statements. While the Company continues to assess all potential impacts of the standard, the Company currently believes the most significant impact relates to its ICE software license revenue. The Company expects revenue related to product sales and installations to remain substantially unchanged.

In January 2016, the IASB issued amendments to IAS 12 “Income Taxes”. The amendments were related to the recognition of deferred tax assets for unrealized losses, which clarified how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently assessing the impact of this standard.

In January 2016, the IASB also issued amendments to IAS 7 “Statement of Cash Flows”. The amendments will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. 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.

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.

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.

“Internal control over financial reporting” means a process designed by, or under the supervision of, an issuer’s certifying officers, and effected by the issuer’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer’s GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer’s assets that could have a material effect on the annual financial statements or interim financial statements.

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 effectively as at December 31, 2016. 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.

There were no changes to the Company’s internal controls over financial reporting during the year ended December 31, 2016 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, 2016 and have concluded that these controls and procedures were appropriately designed and operated effectively.

“Disclosure controls and procedures” means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer’s management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

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, 2016, 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, 2016, we had an accumulated deficit of $32.0 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, 2016, DIRTT and Ice Edge owned and had applications pending for patents relating to various aspects of software and product solutions as follows:

Jurisdiction	Issued/Allowed	Pending	Total
United States	76	46	**122**
Canada	39	46	**85**
European Union	23	36	**59**
Singapore	-	20	**20**
Patent Cooperation Treaty	-	7	**7**
Other	-	7	**7**
Total	**138**	**162**	**300**

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).