MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the operating results and financial position of DIRTT Environmental Solutions Ltd. and its subsidiaries ("DIRTT", the "Company", "we", "us" or "our") was prepared as of August 3, 2016, and should be read in conjunction with the Company's condensed consolidated financial statements and related notes for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additionally, the following discussion and analysis should be read in conjunction with the Company's MD&A, consolidated financial statements and related notes and annual information form ("AIF") for the year ended December 31, 2015 and other public filings available on SEDAR at www.sedar.com. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as at and for the three and six months ended June 30, 2016.

The Company's reporting currency is the Canadian dollar. This MD&A contains references to Canadian dollars and United States dollars. Canadian dollars are referred to as "$" and United States dollars are referred to as "US$". All amounts are expressed in thousands of Canadian dollars unless otherwise stated.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

In particular and without limitation, this MD&A contains Forward-Looking Information pertaining to the following: comments with respect to our revenue, objectives and priorities for 2016 and beyond; project timetables; the benefits of the DIRTT Movers Program; ; the anticipated use of our credit facilities; comments with respect to the new GLC in London, United Kingdom; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; and our outlook for our operations and the Canadian, United States (the "US") and international economies, and in particular, the US construction industry.

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

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

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

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

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

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

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

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

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

MARKET AND INDUSTRY DATA

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

OVERVIEW

We are a leading technology-driven manufacturer of highly customized interiors. We combine our proprietary ICE® 3D design, configuration and manufacturing software ("ICE" or "ICE Software") with integrated in-house manufacturing of our innovative prefabricated interior construction solutions. DIRTT prefabricated, custom interior construction solutions include DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings, DIRTT Flooring, DIRTT Timber Frame and related complementary products (collectively, the "DIRTT Solutions"). We sell DIRTT Solutions through an extensive network of Distribution Partners ("DP"s) located throughout the United States, Canada and select international markets. We support our DPs with local DIRTT sales team members 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, 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.

Our goal is to build and deliver complete, engaging, well-designed, customized, sustainable, high-quality spaces faster and more efficiently than 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 (three-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. 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. Similar to DIRTT Power, data requirements 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. 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 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 June 30, 2016, our DPs had delivered DIRTT Solutions to more than 5,600 of their clients. For the six months ended June 30, 2016, our average project size (on a per project order basis) was approximately $81,000 (June 30, 2015 - $76,000), with the single largest project (on a per project order basis) being $1.2 million (June 30, 2015 - $2.0 million). The largest individual project completed in our company history was valued at US$19.4 million, which was completed in early 2013.

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

Below is a breakdown of revenue by territory for the respective periods:

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
		($ thousands)		
Canada	4,984	7,730	13,056	17,456
US	56,268	45,136	104,119	92,111
	61,252	**52,866**	**117,175**	**109,567**

Revenue from international projects is included in the revenue amount for the US as these projects are sold by US-based DPs. Revenue from international-based projects for the three- and six-month periods ended June 30, 2016 and 2015 are as follows:

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
		($ thousands)		
Middle East	942	744	5,122	3,057
% of total revenue	1.5%	1.4%	4.4%	2.8%

SECOND QUARTER 2016 HIGHLIGHTS

Financial:

- Revenue increased by $8.4 million, or 15.9% over Q2 2015, to $61.3 million;
- Gross profit % increased by 410 basis points over Q2 2015 growing from 40.5% to 44.6% ;
- Adjusted gross profit % (see "Non-IFRS Measures") increased by 410 basis points over Q2 2015 improving from 42.0% to 46.1%;
- Adjusted EBITDA % (see "Non-IFRS Measures") increased by 280 basis points over Q2 2015 growing from 4.4% to 7.2%; and
- Adjusted EBITDA (see "Non-IFRS Measures") increased by $2.1 million over Q2 2015 to $4.4 million.

Operational:

- Culmination of DIRTT's largest Connext ever (annual two-week sales and marketing event) with DP attendance up 55% year over year;
- Successful delivery of DIRTT's first major residential project – 16 healthcare housing units in Barrow, Alaska; and
- Introduction of ICEreality™, a mixed reality tool for design and construction, at DIRTT Connext.

YEAR TO DATE 2016 HIGHLIGHTS

In addition to the highlights reported for the second quarter of 2016, during the six months ended June 30, 2016 the Company has reported:

Financial:

- Trailing 12-month revenue was $244.2 million versus $214.2 million in the prior 12-month period, an increase of 14.0%;
- Gross profit % increased by 260 basis points over year-to-date ("YTD") 2015 growing from 41.3% to 43.9%;
- Adjusted EBITDA % (see "Non-IFRS Measures") decreased by 250 basis points from YTD 2015 dropping from 10.1% to 7.6%; and
- Trailing 12-month adjusted EBITDA was $29.7 million versus $26.1 million in the prior 12-month period, an increase of 14.1%.

Operational:

- Increase in sales and marketing head count by 10.7% year over year;
- Implemented DIRTT Movers Program;
- Implemented DP GLC Loan Program; and
- Improved DP GLC investment of $1.5 million, an increase of 97.1% over YTD 2015.

DIRTT CONNEXT™ - ANNUAL SALES, MARKETING & TRAINING INITIATIVE

A major component of DIRTT's ongoing marketing activities is DIRTT Connext, our annual sales, marketing and training initiative which occurs every June in Chicago and now extends over a two-week period. It partially 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 the architect and design community, 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. DIRTT's success relies heavily on the success of our DPs, and extensive training sessions for all team members 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 is highlighted by the 55% increase in attendance from our DPs and their team members, up from 332 participants in 2015 to 513 this year. Increased DP participation reflects their recognition that attending 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 $3.4 million, an increase of $1.1 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 exhibit many of the characteristics of DIRTT's six top-performing DPs, and who we believe, with additional mutual investment, can achieve significant future growth. 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.

DP GLC LOAN PROGRAM

In November 2015 DIRTT unveiled a DP financial support program to drive expanding, updating and building out DP GLCs. DIRTT and our DPs have anecdotally 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 expand, update or build-out a GLC. The build-out/expansion must meet certain criteria including, but not limited to, showcasing solutions for healthcare, exhibiting Corning® Willow® Glass, and incorporating DIRTT's full suite of interior construction 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, 2016.

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three and six months ended June 30, 2016 and 2015.

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
	($ thousands, except per share amounts)			
Revenue	61,252	52,866	117,175	109,567
Gross profit	27,327	21,413	51,393	45,214
Gross profit %	44.6%	40.5%	43.9%	41.3%
Adjusted gross profit (1)	28,226	22,225	53,035	46,736
Adjusted gross profit % (1)	46.1%	42.0%	45.3%	42.7%
SG&A	27,543	22,544	50,689	42,615
SG&A %	45.0%	42.6%	43.3%	38.9%
Adjusted SG&A (1)	23,566	19,809	42,815	37,237
Adjusted SG&A % (1)	38.5%	37.5%	36.5%	34.0%
Operating (loss) income	(216)	(1,131)	704	2,599
Adjusted EBITDA (1)	4,385	2,324	8,963	11,013
Adjusted EBITDA % (1)	7.2%	4.4%	7.6%	10.1%
Income tax expense	987	245	958	467
Net (loss) income	(1,458)	(1,363)	(1,090)	3,319
Net (loss) income per share - basic and diluted	(0.02)	(0.02)	(0.01)	0.04

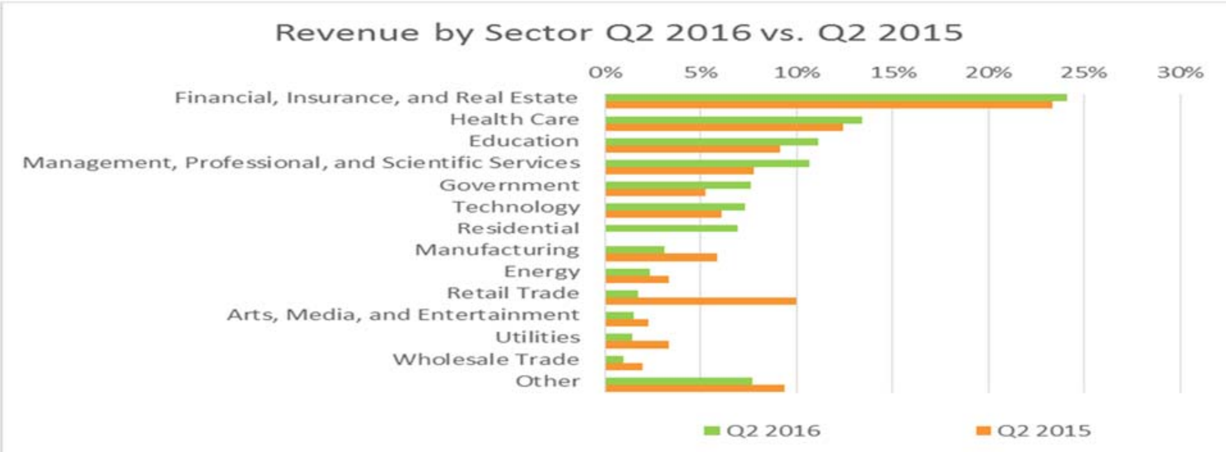
Note:

(1) See "Non-IFRS Measures".

Revenue

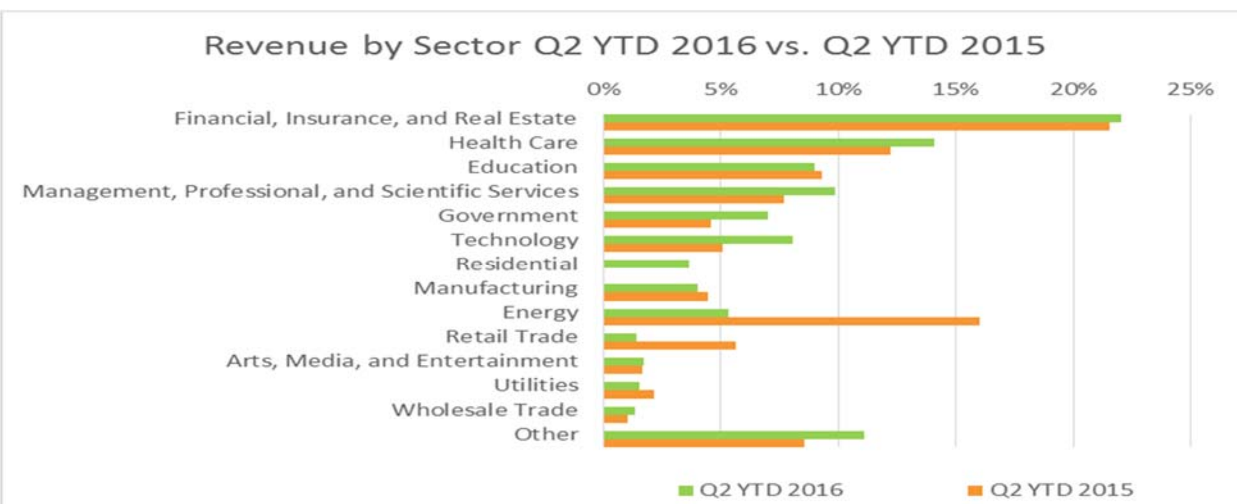
Revenue increased by $8.4 million, or 15.9%, for Q2 2016 compared with Q2 2015. The increase was partially due to the contribution of $4.3 million in revenue from the residential market during Q2 2016 (7% of total revenue) compared with nil in Q2 2015. The remainder of the increase was the result of a general increase in activity from small and medium-sized projects in Q2 2016, from a diverse range of industry segments. In addition, the stronger US dollar versus the comparable period in 2015 increased the Canadian dollar value of US revenue in Q2 2016.

Below is a breakdown of percentage revenue by sector for Q2 2016 versus Q2 2015:



Revenue increased by $7.6 million, or 6.9%, for YTD 2016 compared with the same period in 2015. The 2015 period included revenue of $8.4 million from the previously announced US$30.0 million US energy sector contract compared to nil during the 2016 period. This business was partially offset by the $4.3 million contribution (4% of total revenue) from the residential market during the first half of 2016. While total volume was essentially flat year over year, the stronger US dollar versus the comparable period in 2015 increased the Canadian dollar value of US revenue. Sales to the energy sector accounted for 5% of total revenue in 2016, down from 15% of total revenue for the same period in 2015. The reduction reflects the absence of contribution from the previously announced US$30.0 million contract and a general decline in activity in this sector as a result of falling energy prices. This decline was offset by increases in revenue from other sectors.

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



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

Gross profit for Q2 2016 improved to $27.3 million from $21.4 million in Q2 2015, with gross profit % widening 410 basis points to 44.6% from 40.5%. The increase in gross profit % was due primarily to higher revenue, combined with steady monthly manufacturing volumes and favorable product mix, resulting in reduced material and direct labor costs in 2016 compared with 2015. During Q2 2016, material costs and direct labor costs as a percentage of revenue improved by 230 basis points and 40 basis points, respectively, compared with 2015.

Adjusted gross profit for Q2 2016 improved to $28.2 million from $22.2 million for Q2 2015, with adjusted gross profit % widening 410 basis points to 46.1% from 42.0% 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 YTD 2016 improved to $51.4 million from $45.2 million for the same period in 2015, with gross profit % widening 260 basis points to 43.9% from 41.3%. Relatively steady manufacturing volumes throughout the first half of 2016, combined with a diverse project mix, contributed to the increase in gross profit % in 2016.

Adjusted gross profit for YTD 2016 improved to $53.0 million from $46.7 million for the same period in 2015, with adjusted gross profit % widening 260 basis points to 45.3% from 42.7% 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 exchange rate 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. US dollar-based production costs include those costs incurred at our manufacturing facilities in Savannah, Georgia and Phoenix, Arizona. Additionally, some of our largest raw material costs incurred in all of our manufacturing facilities are also denominated in US dollars.

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

Selling, general and administrative ("SG&A") % increased by 240 basis points from 42.6% to 45.0% in Q2 2016 compared with Q2 2015. SG&A expenses increased by $5.0 million, or 22.2%, for Q2 2016 compared with Q2 2015. The increase reflects DIRTT's ongoing investment in long-term growth. The most significant change can be attributed directly to marketing-related efforts as travel, marketing and trade show costs increased by $1.8 million, of which $1.1 million was related to the previously discussed DIRTT Connext event. The increased investment in DIRTT Connext can be attributed directly to the 55% increase in DP attendance at this year's event. While our DPs and their team members are responsible for their own travel and accommodation costs to attend the event, DIRTT incurs costs for the training sessions, keynote speakers, facilities, meals and entertainment and travel and accommodation costs for DIRTT personnel. Other increases in SG&A in Q2 2016 included depreciation and amortization expense of non-manufacturing-related assets of $0.7 million, stock-based compensation expense of $0.6 million, salaries and commissions of $0.5 million, professional fees of $0.4 million, rent expense of $0.3 million, and $0.7 million in other operating expense items. 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 increase in stock-based compensation expense was due to the granting of options in August 2015 that carried a higher Black-Scholes value than the June 2014 grant.

Adjusted SG&A % increased by 100 basis points from 37.5% to 38.5% in Q2 2016 compared with Q2 2015. Adjusted SG&A expenses increased by $3.7 million, or 19.0%, for Q2 2016 compared with Q2 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 incurred in the period. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and adjusted SG&A %.

SG&A % increased by 440 basis points from 38.9% to 43.3% in YTD 2016 compared with the same period in 2015. SG&A expenses increased by $8.1 million, or 18.9%, for YTD 2016 compared with the same period in 2015. The increase reflects DIRTT's ongoing investment in long-term growth. The most significant changes can be attributed directly to marketing-related efforts as travel, marketing and trade show costs increased by $2.8 million, of which $1.1 million was related to the previously discussed DIRTT Connext event, and marketing promotional items increased by $0.2 million. Marketing promotional items are used to showcase DIRTT's latest innovations and provide our partners with real-life examples of how best to position DIRTT's value proposition. Other increases in SG&A in YTD 2016 included depreciation and amortization expense of non-manufacturing-related assets of $1.4 million, stock-based compensation expense of $1.1 million, software licenses and computer supplies of $0.6 million, rent expense of $0.5 million, salaries and commissions of $0.3 million, professional service fees of $0.2 million, and $1.0 million in other operating expense items.

Adjusted SG&A % increased by 250 basis points from 34.0% to 36.5% in YTD 2016 compared with the same period in 2015. Adjusted SG&A expenses increased by $5.6 million, or 15.0%, for YTD 2016 compared with the same period in 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 exchange rate 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 % for Q2 2016 improved by 280 basis points from 4.4% in Q2 2015 to 7.2%. Adjusted EBITDA increased by $2.1 million, or 88.7%, for Q2 2016 compared with Q2 2015. The increase in Q2 2016 was mainly due to higher adjusted gross profit of $6.0 million, partially offset by higher adjusted SG&A expenses of $3.7 million and an increase in foreign exchange loss of $0.2 million. See "Non-IFRS Measures for a reconciliation of Adjusted EBITDA and Adjusted EBITDA %.

Adjusted EBITDA % for YTD 2016 weakened by 250 basis points from 10.1% in YTD 2015 to 7.6%. Adjusted EBITDA decreased by $2.1 million, or 18.6%, for YTD 2016 compared with the same period in 2015. The decrease in YTD 2016 was mainly due to the increase in foreign exchange loss of $2.8 million and higher adjusted SG&A expenses of $5.6 million, partially offset by higher adjusted gross profit of $6.3 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 $2.8 million is the result of significant fluctuations in the CAD-US exchange rate in the year-over-year periods. In the first half of 2015, the US dollar increased by $0.09, resulting in a $1.5 million gain on the revaluation of these monetary assets and liabilities. Conversely, in the first half of 2016, the US dollar depreciated by $0.09, resulting in a $1.3 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.

	Q2 2016	Q2 2015	Variance	Q2 YTD 2016	Q2 YTD 2015	Variance
			($ thousands)			
FX loss (gain) as reported	341	(2)	343	1,006	(1,215)	2,221
FX loss (gain) on debt revaluation	11	(94)	105	(306)	299	(605)
FX loss (gain) included in Adjusted EBITDA	330	92	238	1,312	(1,514)	2,826

Income Tax Expense

Provision for income taxes comprises federal, state, local and foreign taxes based on pre-tax income. Income tax expense for both the three and six months ended June 30, 2016 was $1.0 million, compared with $0.2 million and $0.5 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 the rest of 2016.

As at June 30, 2016, DIRTT had consolidated loss carry forwards of $22.9 million and US$3.3 million (December 31, 2015 - $15.9 million and US$4.1 million) for the Canadian and US operating segments, respectively. These losses will expire in the years 2027 to 2036.

Summary of Quarterly Results

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
				($ thousands, except per share amounts)				
Revenue	61,252	55,923	64,988	62,070	52,866	56,701	57,945	46,651
Gross profit	27,327	24,066	28,443	27,799	21,413	23,801	25,050	19,145
Gross profit %	44.6%	43.0%	43.8%	44.8%	40.5%	42.0%	43.2%	41.0%
Adjusted gross profit % (1)	46.1%	44.4%	45.1%	45.8%	42.0%	43.2%	44.4%	42.3%
Operating (loss) income	(216)	920	7,370	6,257	(1,131)	3,730	6,580	1,301
Adjusted EBITDA (1) (2)	4,385	4,578	9,573	11,198	2,324	8,689	9,793	5,259
Adjusted EBITDA% (1)	7.2%	8.2%	14.7%	18.0%	4.4%	15.3%	16.9%	11.3%
Net (loss) income	(1,458)	368	9,127	5,446	(1,363)	4,682	6,553	1,526
Net (loss) income per share - basic and diluted	(0.02)	0.00	0.11	0.07	(0.02)	0.06	0.09	0.02

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" in the MD&A for the year ended December 31, 2015.

The construction industry historically has seen seasonal slowdowns in the fourth and first quarters related to winter weather conditions and holiday schedules. DIRTT's business has followed suit, 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 monthly manufacturing volumes tend to generate higher gross profit than those where manufacturing levels vary significantly from month to month.

Changes in Financial Position

The following is a discussion of changes in the consolidated statement of financial position as at June 30, 2016.

As at	June 30, 2016	December 31, 2015	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Current assets					
Cash and cash equivalents	93,872	91,405	2,467	3%	See "Liquidity and Capital Resources"
Trade and other receivables	15,617	23,574	(7,957)	(34%)	Reflects improvement in collection of receivables as well as the impact of the softening of the US dollar in 2016
Inventory	18,796	21,619	(2,823)	(13%)	Reflects normal draw down of peak year-end inventory levels
Prepaids and other current assets	1,849	1,614	235	15%	Insignificant change
	130,134	138,212			
Current liabilities					
Trade accounts payable and other liabilities	21,202	23,597	(2,395)	(10%)	Reflects timing of payment of payables and other liabilities as well as the impact of the softening of the US dollar in 2016
Customer deposits	6,423	7,094	(671)	(9%)	Reflects timing and type of project orders
Current portion of long-term debt	2,476	3,663	(1,187)	(32%)	Reflects scheduled repayments and the impact of the softening of the US dollar in 2016
	30,101	34,354			
Working capital					
(Current assets minus Current liabilities)	100,033	103,858	(3,825)	(4%)	

As at	June 30, 2016	December 31, 2015	Change ($)	Change (%)	Explanation of changes
		($ thousands)			
Non-current assets					
Property, plant and equipment	52,322	48,236	4,086	8%	Reflects additions of $10.6 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 $5.1 million and foreign exchange adjustment of $1.4 million
Intangible assets	17,399	15,225	2,174	14%	Reflects additions of $4.2 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $2.0 million
Note receivable	431	443	(12)	(3%)	Reflects scheduled repayments during 2016
Deferred tax assets	8,054	7,279	775	11%	Insignificant change
Goodwill	1,845	1,845	-	0%	No change
Other assets	880	1,010	(130)	(13%)	Insignificant change
Non-current liabilities					
Deferred tax liabilities	1,224	1,559	(335)	(21%)	General movement in temporary differences
Long-term debt	9,280	5,498	3,782	69%	Reflects draw down of new capital financing facility of $5.3 million, offset by scheduled repayments and the impact of the softening of the US dollar in 2016
Shareholders' equity					
Common share capital	194,421	193,984	437	0%	Reflects stock option exercises during 2016
Warrants	37	37	-	0%	No change
Share-based payment reserve	9,084	6,865	2,219	32%	Reflects stock-based compensation expense, partially offset by stock option exercises during 2016
Accumulated other comprehensive income	7,332	9,277	(1,945)	21%	Reflects the softening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(40,414)	(39,324)	(1,090)	3%	Net loss from 2016

LIQUIDITY AND CAPITAL RESOURCES

Summary information – Condensed consolidated statements of cash flows

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
	($ thousands)			
Cash flows provided by operating activities (1) before changes in non-cash working capital	3,804	2,072	6,486	10,376
Changes in non-cash working capital	9,864	10,612	8,450	6,569
Net cash flows provided by operating activities	13,668	12,684	14,936	16,945
Add (deduct):				
Net cash flows used in investing activities	(7,519)	(7,196)	(14,804)	(11,591)
Net cash flows provided by financing activities	4,357	42,200	3,257	45,502
Effect of foreign exchange on cash and cash equivalents	(157)	149	(922)	1,974
Increase in cash and cash equivalents	10,349	47,837	2,467	52,830
Cash and cash equivalents, beginning of period	83,523	44,829	91,405	39,836
Cash and cash equivalents, end of period	**93,872**	**92,666**	**93,872**	**92,666**

Note:

(1) See "Non-IFRS Measures".

At June 30, 2016, we had $93.9 million in cash and cash equivalents compared with $91.4 million at December 31, 2015. At June 30, 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, of which $5.3 million (US$4.2 million) was drawn as at June 30, 2016. We expect to draw on the remainder of this facility by December 31, 2016.

We expect to make continued investments in product and software development to further expand our solution offerings, as well as in certain manufacturing equipment to support this development. We will also continue to further invest in our existing GLCs to ensure that each location showcases the latest DIRTT Solutions. We also expect to complete construction of our new GLC in London, England before the end of 2016, to better serve and support the significant market opportunity in the Middle East and Europe.

We believe our current cash on hand, available credit facilities and cash flow from operations provide sufficient liquidity to meet our working capital requirements, which are mainly our accounts receivable, inventory, and accounts payable and other liabilities balances that arise in the normal course of our operations; our financial obligations; and the flexibility to pursue additional growth opportunities. In addition, we usually require a 50% deposit on certain orders which further reduces pressure on our working capital. We do not require deposits on

US government orders or in some special contractual situations. Historically, we do not see a strong correlation between the customer deposits balance at the end of the period and the following period's revenue.

Net cash flows provided by operating activities

Net cash flows provided by operating activities increased by $1.0 million for Q2 2016 compared with Q2 2015. The increase was mainly due to higher adjusted EBITDA of $2.1 million, partially offset by an increase in cash taxes paid of $0.8 million during Q2 2016.

Net cash flows provided by operating activities decreased by $2.0 million for YTD 2016 compared with the same period in 2015. The decrease was mainly due to lower adjusted EBITDA of $2.1 million during the first half of 2016.

Net cash flows used in investing activities

Net cash flows used in investing activities for Q2 and YTD 2016 increased by $0.3 million and $3.2 million, respectively, compared with the same periods in 2015. The majority of the increases relate to investment in new manufacturing equipment necessary to expand our manufacturing capabilities, and in our company-owned GLCs. We also continue to invest in product and software development (such as ICEreality) and our ongoing commitment to further enhance and expand our solutions such as the new residential interiors, timber frame construction and Corning® Willow® Glass offerings. During DIRTT Connext in June 2016, we introduced ICEreality, a mixed reality technology for design and construction. In the case of DIRTT and ICEreality, the 3D software design of a proposed interior space is overlaid onto a real environment. Designers and owners walk through the design in virtual reality making changes and keeping track of the budget while creating new iterations in real time.

Net cash flows provided by financing activities

Net cash flows provided by financing activities for Q2 2016 decreased by $37.8 million compared with Q2 2015. During Q2 2015, we completed a bought deal offering whereby 5,175,000 Common Shares were issued at $8.35 per Common Share for net proceeds of $40.6 million that did not occur during Q2 2016. The remainder of the decrease was attributable to reduced proceeds from the exercise of stock options and warrants of $2.5 million, and partially offset by a draw of $5.3 million on the new capital financing facility during Q2 2016.

Net cash flows provided by financing activities for YTD 2016 decreased by $42.2 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 $4.3 million and increased debt repayments of $0.6 million, and partially offset by a draw of $5.3 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. 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. DIRTT believes the non-IFRS measures are useful supplemental measures that may assist investors in assessing DIRTT's business. The non-IFRS measures should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of its financial statements.

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 permit improvements in gross profit.

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

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
	($ thousands)			
Revenue	61,252	52,866	117,175	109,567
Cost of goods sold ("COGS")	33,925	31,453	65,782	64,353
Gross profit	**27,327**	**21,413**	**51,393**	**45,214**
Gross profit %	**44.6%**	**40.5%**	**43.9%**	**41.3%**
Add back:				
Depreciation included in COGS	899	812	1,642	1,522
Adjusted gross profit	**28,226**	**22,225**	**53,035**	**46,736**
Adjusted gross profit %	**46.1%**	**42.0%**	**45.3%**	**42.7%**

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 and stock-based compensation expense. 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 condensed consolidated statements of (loss) income and comprehensive (loss) income.

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
	($ thousands)			
SG&A	27,543	22,544	50,689	42,615
Less: Depreciation included in SG&A	(2,806)	(2,121)	(5,531)	(4,135)
Less: Stock-based compensation expense included in SG&A	(1,171)	(614)	(2,343)	(1,243)
Adjusted SG&A	**23,566**	**19,809**	**42,815**	**37,237**
Adjusted SG&A %	**38.5%**	**37.5%**	**36.5%**	**34.0%**

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; 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 condensed consolidated statements of (loss) income and comprehensive (loss) income.

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
		($ thousands)		
Net (loss) income for the period	(1,458)	(1,363)	(1,090)	3,319
Add back (deduct):				
Finance costs	62	107	138	205
Interest income	(148)	(118)	(308)	(177)
Income tax expense	987	245	958	467
Depreciation included in COGS	899	812	1,642	1,522
Depreciation and amortization included in SG&A	2,806	2,121	5,531	4,135
EBITDA	**3,148**	**1,804**	**6,871**	**9,471**
Stock-based compensation	1,171	614	2,343	1,243
Non-cash foreign exchange loss (gain) on debt revaluation	11	(94)	(306)	299
Other non-cash adjustments [1]	55	-	55	-
Adjusted EBITDA	**4,385**	**2,324**	**8,963**	**11,013**
Adjusted EBITDA %	**7.2%**	**4.4%**	**7.6%**	**10.1%**

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 condensed 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 condensed consolidated statements of cash flows.

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
		($ thousands)		
Net cash flows provided by operating activities	13,668	12,684	14,936	16,945
Changes in non-cash working capital	(9,864)	(10,612)	(8,450)	(6,569)
Net cash flows provided by operating activities before changes in non-cash working capital	**3,804**	**2,072**	**6,486**	**10,376**

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 June 30, 2016 and December 31, 2015, the Company's tangible net worth was $157.9 million and $156.6 million, respectively. As at June 30, 2016 and December 31, 2015, we were in compliance with all of our lender's covenants.

CONTRACTUAL OBLIGATIONS

As at June 30, 2016, we have unpaid capital expenditure commitments of approximately $2.3 million for manufacturing equipment to be delivered by early 2017. We will be using our current cash on hand to fund these commitments.

OUTSTANDING SHARE DATA

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

As at	August 3, 2016	June 30, 2016
Common shares	84,676,495	84,635,129
Stock options (1)	5,508,277	5,551,793
Warrants (1)	100,000	100,000
Total	90,284,772	90,286,922

Note: (1) Assuming full conversion and ignoring exercise prices.

TRANSACTIONS BETWEEN RELATED PARTIES

At June 30, 2016, a note receivable of $431,109 (December 31, 2015 - $442,662) remains outstanding from Mogens Smed ("Mr. Smed"), a shareholder, officer and a director of DIRTT. The note receivable bears interest at 5% with monthly payments of $3,750, including interest, and is secured by a pledge of 250,000 Common Shares held by Mr. Smed. The note receivable was advanced to Mr. Smed to enable him to meet certain personal financial obligations after he, at the request of DIRTT, agreed to be issued Common Shares rather than cash on maturity of $0.5 million principal amount of convertible debentures issued to Mr. Smed on February 1, 2005. The $0.5 million advanced to DIRTT by Mr. Smed was used by us to meet certain financial obligations.

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

	Q2 2016	Q2 2015	Q2 YTD 2016	Q2 YTD 2015
			($ thousands)	
Revenue earned	3,063	1,119	5,129	2,833
Rebates paid	7	16	26	60
As at			**June 30, 2016**	**December 31, 2015**
Outstanding accounts receivable			804	370
Outstanding deposits received			190	237

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables and note receivable. The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies. Our credit risk is primarily concentrated in our trade receivables. The amounts disclosed in the condensed consolidated statement of financial position are net of allowances for doubtful accounts, estimated by management based on previous experience with customers and their assessment of the current economic environment and specific customer circumstances. In order to reduce our risk, management maintains credit policies that include regular review of credit limits of individual customers and the use of accounts receivable insurance (see below) for a significant portion of trade receivables. Aging of trade receivables is systematically monitored by management. Trade balances are spread amongst a broad, geographically dispersed customer base. We do not have significant exposure to any individual customer. A number of factors are considered in determining the likelihood of impairment. We also have a contract with Export Development Canada ("EDC"), Canada's export credit agency, whereby some of our trade receivables are insured. EDC determines the coverage amount, if any, on a customer-by-customer basis. Based on our trade receivables balance as at June 30, 2016, 67.3% (December 31, 2015 - 64.1%) of that balance is covered by EDC. Substantially all of the remaining balance is less than 90 days old and is owed by a small number of DIRTT's strong-performing DPs, on which the Company has a high level of confidence of collectability, and government sales that are not covered by EDC. We consider trade receivables greater than 90 days as past due and as at June 30, 2016, the amount outstanding was $1.1 million, net of allowance for doubtful accounts of $0.7 million (December 31, 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.

Fair value of financial instruments

The fair values of our financial instruments were determined as follows:

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

at each measurement date. The convertible note receivable was repaid in full in May 2016; and

d) 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 approximate fair value due to their respective floating interest rates.

RISK FACTORS

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

OUTLOOK

Our growth strategy consists of five key initiatives: (1) increasing penetration of existing markets by providing continued support and increased investment to our existing DPs throughout North America; (2) expanding into new geographies, such as the Middle East and United Kingdom, by capitalizing on recent and continued investment alongside new international DPs; (3) penetrating new vertical markets such as the healthcare, education and residential sectors; (4) continuing to invest in ICE and new innovative interior construction solutions such as the Enzo Approach, residential interiors and timber frame construction; and (5) partnering with industry leaders to monetize innovative solutions.

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 billing activity could trend. The most recent June billings and design activity numbers continued to show growth nationally, building on an improving trend in recent months, following a slower start to the year. Regionally, the Northeast, South and West all saw billings grow with the Midwest showing slight declines. Both DIRTT and the AIA believe these overall numbers still point to solid fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

DIRTT believes that extended softness in global commodity pricing could result in continued weakness for the energy sector in 2016. We do not expect the remaining portion of the gross US$30.0 million US energy sector contract announced in mid-2014 to occur given the ongoing challenges in the energy industry. Growth in non-energy-related sectors is partially offsetting the current weakness in the energy sector, which represented approximately 5% of our revenue in the first half of 2016. DIRTT anticipates some benefits from reduced input costs for raw materials and transportation charges as a result of softness in global commodity pricing for the remainder of 2016.

CRITICAL ACCOUNTING ESTIMATES

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

There have been no significant changes in our critical accounting estimates since December 31, 2015.

FUTURE ACCOUNTING PRONOUNCEMENTS

There have been no significant changes to new and revised accounting pronouncements since December 31, 2015, except for the amendments noted below. We are currently assessing the potential impact, if any, of these amendments.

In January 2016, the International Accounting Standards Board ("IASB") issued amendments to IAS 12 "Income Taxes". The amendments are related to the recognition of deferred tax assets for unrealized losses, which clarify 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.

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.

In April 2016, the IASB issued amendments to IFRS 15 "Revenue from Contracts with Customers". The amendments 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. The amendments are effective for annual periods beginning on or after January 1, 2018 (same effective date as IFRS 15 itself), with earlier application permitted.

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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended June 30, 2016, there have been no changes in the internal controls and procedures relating to disclosure and financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.