DIRTT
Build better.™

Management Discussion and Analysis | 2017 Q2

For the period ending June 30, 2017

This management’s discussion and analysis (“MD&A”) for DIRTT Environmental Solutions Ltd. and its subsidiaries (“DIRTT”, the “Company”, “we”, “us” or “our”), dated August 2, 2017, should be read in conjunction with our condensed consolidated financial statements and related notes for the three- and six-month periods ended June 30, 2017 (as compared with the same periods in 2016), the December 31, 2016 consolidated financial statements and related notes, and the December 31, 2016 MD&A.

All financial information, except for Non-IFRS Measures, presented in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise stated, is in Canadian dollars. Additional information relating to the Company, including the annual and quarterly financial statements and MD&A, and annual information form (AIF), is available on SEDAR at www.sedar.com and on our website at www.dirtt.net.

This MD&A addresses matters we consider important for an understanding of the Company's business, financial condition and results of operations as at and for the three- and six-month periods ended June 30, 2017.

BUSINESS OVERVIEW

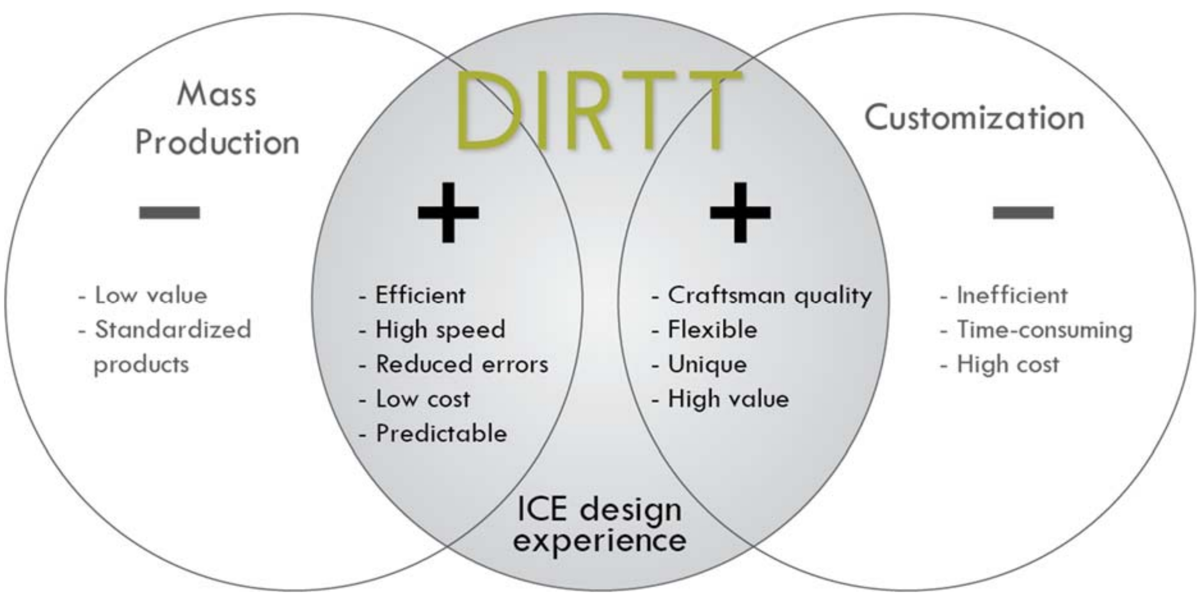
DIRTT provides custom, manufactured interiors. Our suite of construction solutions includes DIRTT Walls, DIRTT Power, DIRTT Networks, DIRTT Millwork, DIRTT Ceilings, DIRTT Flooring, DIRTT Timber and related complementary products (collectively, the "DIRTT Solutions" or "Solutions").

Our manufacturing approach is built on a foundation of technology with our proprietary ICE® Software ("ICE" or "ICE Software"), and addresses challenges associated with traditional construction: cost overruns, inconsistent quality, delays and significant material waste. This software allows for an automated manufacturing process, with a two-week or less manufacturing target. It combines the low unit-costs of a mass, prefabricated construction method (speed, cost certainty, sustainability and modularity) with the flexibility of customization (unique dimensions, custom functionality and aesthetics of traditional, skilled-trade construction). We use ICE to communicate, present, design, visualize in 3D and virtual reality, configure, price, engineer, specify, order and manage projects.

We are underpinned by an entrepreneurial culture and provide a unique, end-to-end solution for the inefficient and fragmented interior construction industry. Our solutions are sold through a distributed sales partner network ("Partner" or "Partners"), with presence throughout the United States, Canada and select international markets. Partners are supported by local DIRTT sales team members, industry specialists and business development resources. In turn, Partners are required to invest in their regional DIRTT-dedicated team, which at a minimum consists of a DIRTT champion (sales role), DIRTT project manager and DIRTT designer. Our Partners are also required to invest in their own DIRTT Green Learning Center ("GLC"), which is a display area to showcase DIRTT Solutions locally.

Doing It Right This Time

DIRTT stands for *Doing It Right This Time* and reflects our mandate of offering a better way to build. Led by an entrepreneurial and client-focused culture, we are working to create a shift in the construction industry by placing as much value on the environment and people as we do on flexible and functional design and construction. Our goal is to build and deliver complete, engaging, well-designed, mass-customized, sustainable, high-quality spaces faster, more efficiently and with a better overall customer experience than is available with traditional construction methods.



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 includes Passive Optical Network ("PON") capabilities within 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 following process chart compares a typical conventional construction approach to the DIRTT approach. With technology at its core, DIRTT removes several common steps required in conventional construction, leading to faster project completion.

CLIENTS AND REVENUE BY GEOGRAPHIC LOCATIONS

Our revenues reflect sales to Partners for resale to their clients. We are not dependent on any one Partner, Partner's client, vertical market, industry segment or minimum job size. Our Partners' clients range from small owner-managed businesses to multinational Fortune 500 corporations in a 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, 2017, our Partners had delivered DIRTT Solutions to more than 7,400 of their clients. For the six months ended June 30, 2017, our average project size (on a per project order basis) was approximately $77,000 (June 30, 2016 - $81,000), with the single largest project (on a per project order basis) being $1.2 million (June 30, 2016 - $1.2 million).

Our three principal geographic locations are Canada, the US and "international" (which encompasses everything outside North America), and we have one operating segment. Our revenue continues to be derived almost exclusively from projects in North America, with periodic international projects for North American Partners and select international clients. During Q2 2017 and 2016 we reported the following revenue from our Canadian, US and international geographic locations.

($ thousands)	Q2 2017	Q2 2016	Q2 YTD 2017	Q2 YTD 2016
Canada	13,065	4,984	24,904	13,056
US	56,539	56,268	109,759	104,119
International	402	-	402	-
	70,006	**61,252**	**135,065**	**117,175**

Note that revenue from certain international projects was included in the revenue for the US geographic location, as these projects were sold by US-based Partners and delivered internationally. During Q2 2017 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.

($ thousands)	Q2 2017	Q2 2016	Q2 YTD 2017	Q2 YTD 2016
Projects sold to US-based Partners and delivered to international locations (included in US revenue):				
Middle East	1,450	942	1,947	5,122
Asia	60	-	105	-
Europe	67	-	67	-
Projects sold directly by DIRTT (included in International revenue):				
Europe	377	-	377	-
Asia	25	-	25	-
	1,979	942	2,521	5,122
% of total revenue	3%	2%	2%	4%

SECOND QUARTER AND YEAR-TO-DATE HIGHLIGHTS

Below are select financial and operational highlights for the three- and six-month periods ended June 30, 2017.

Q2 2017 HIGHLIGHTS

Financial

- Revenue increased by $8.8 million, or 14.3% over Q2 2016, to $70.0 million;
- Gross profit increased by $2.5 million, or 9.3% over Q2 2016, to $29.9 million;
- Gross profit % decreased 190 basis points from Q2 2016 from 44.6% to 42.7%;
- Adjusted gross profit of $30.7 million and adjusted gross profit % of 43.9% (see "Non-IFRS Measures");
- DIRTT Connext cost increased slightly by $0.1 million over Q2 2016, to $3.5 million;
- Incurred severance and restructuring costs of $0.8 million;
- Adjusted EBITDA of $2.1 million and adjusted EBITDA % of 3.0% (see "Non-IFRS Measures");
- Net loss was $2.9 million and net loss per share was $0.03; and
- Purchased 631,363 common shares through the normal course issuer bid at a weighted average price of $6.19 per common share for a total cost of $3.9 million.

Operational

- Awarded a significant contract valued at approximately US$5.0 million from an international Fortune 100 company, for interior construction projects across multiple locations; and
- Culmination of the largest-scoped DIRTT Connext yet (annual two-week sales, marketing and industry event) with overall Partner attendance up 15% year over year.

YEAR-TO-DATE 2017 HIGHLIGHTS

Financial

- Revenue increased by $17.9 million, or 15.3% over year-to-date ("YTD") 2016, to $135.1 million;
- Trailing 12-month revenue was $284.9 million versus $ 244.2 million in the prior 12- month period, an increase of 16.7%;
- Gross profit increased by $5.5 million, or 10.6% over YTD 2016, to $56.9 million;
- Gross profit % decreased 180 basis points from YTD 2016 from 43.9% to 42.1%;
- Adjusted gross profit of $58.6 million and adjusted gross profit % of 43.4% (see "Non-IFRS Measures");
- Incurred severance and restructuring costs of $0.9 million;
- Adjusted EBITDA of $6.1 million and adjusted EBITDA % of 4.5% (see "Non-IFRS Measures");
- Net loss was $4.3 million and net loss per share was $0.05; and
- Purchased 765,419 common shares through the normal course issuer bid at a weighted average price of $6.28 per common share for a total cost of $4.8 million.

Operational

- Sales and marketing and business development headcount increased by 18.4% over Q2 2016 to 116.

DIRTT CONNEXT™ – ANNUAL SALES, MARKETING & INDUSTRY EVENT

DIRTT Connext is the Company's largest and most impactful sales, marketing and industry event, held each June in Chicago. DIRTT Connext coincides with — but is not affiliated with — NeoCon®, North America's largest commercial interiors exposition. NeoCon® typically attracts more than 50,000 design professionals to the vicinity, providing an unapparelled opportunity for DIRTT and its sales partners to expand their reach with potential clients and strategic contacts.

For the public showcase portion of DIRTT Connext, June 12 – 14, 2017, the company-owned Chicago GLC was transformed to display DIRTT's 2017 innovations, for viewing by architects, designers, clients, investors and media. This year DIRTT welcomed and hosted more than 3,500 guests into the GLC during this three-day period. Highlights included a two-level timber frame display and DIRTT's sustainable folding wall, Leaf™, now with integrated technology.

DIRTT hosts significant client and industry-related tours throughout the Chicago GLC during the week prior to the public portion of DIRTT Connext, along with a comprehensive sales, marketing and business development sessions for DIRTT employees and sales partners. This year saw a 15% increase in sales partner attendance within the partner-specific training sessions. As DIRTT's success relies heavily on the success of its partners, this growth is significant. The increase is attributed to partners' recognition of the tangible business gains as they deepen their understanding of how to identify and leverage high-potential business opportunities for peak profitability.

The total investment for DIRTT Connext 2017 was $3.5 million, which was unchanged from the final amount reported for the year ended December 31, 2016 despite the increased attendance. While this investment is primarily recognized in Q2, DIRTT Connext's sales and marketing initiatives significantly enhance regular marketing, training and communications efforts throughout the remainder of the year and beyond.

RESULTS OF OPERATIONS

The following table sets forth a summary of DIRTT's results of operations for the three- and six- month periods ended June 30, 2017 and 2016.

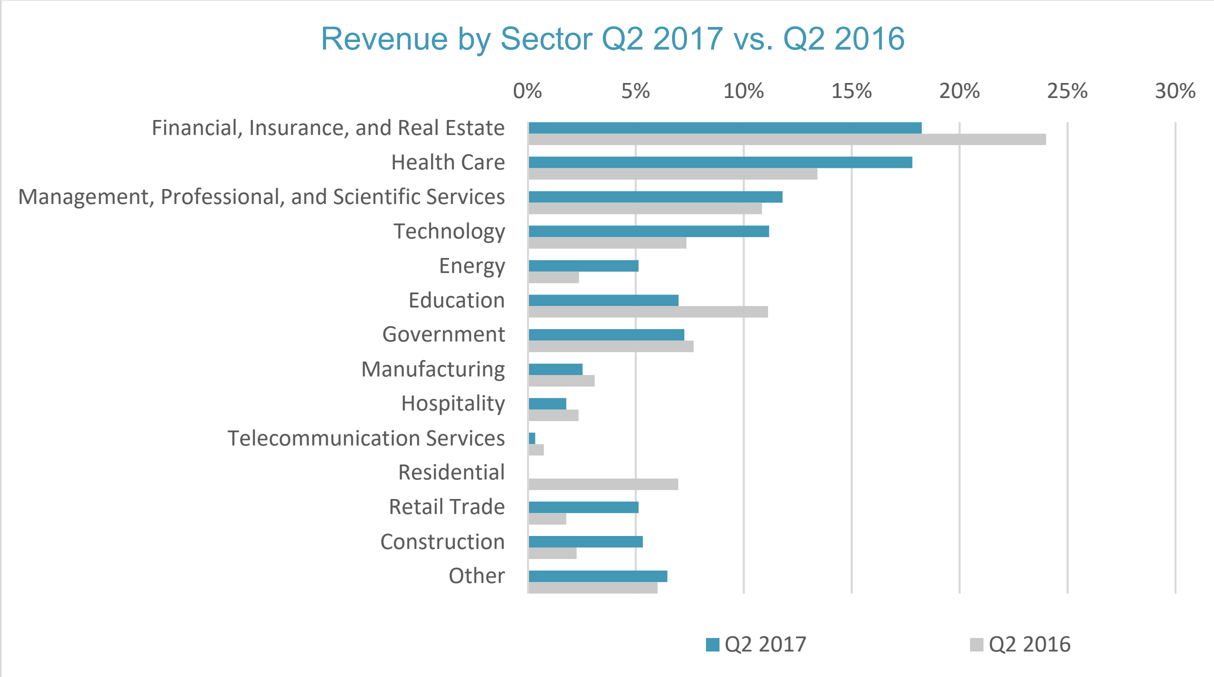
($ thousands, except per share amounts)	Q2 2017	Q2 2016	Q2 YTD 2017	Q2 YTD 2016
Revenue	70,006	61,252	135,065	117,175
Gross profit	29,868	27,327	56,853	51,393
Gross profit %	42.7%	44.6%	42.1%	43.9%
Adjusted gross profit [(1)]	30,701	28,226	58,577	53,035
Adjusted gross profit % [(1)]	43.9%	46.1%	43.4%	45.3%
SG&A	32,925	27,543	60,908	50,689
SG&A %	47.0%	45.0%	45.1%	43.3%
Adjusted SG&A [(1)]	28,301	23,566	51,880	42,815
Adjusted SG&A % [(1)]	40.4%	38.5%	38.4%	36.5%
Operating (loss) income	(3,057)	(216)	(4,055)	704
Adjusted EBITDA [(1)]	2,131	4,385	6,140	8,963
Adjusted EBITDA % [(1)]	3.0%	7.2%	4.5%	7.6%
Income tax (recovery) expense	(245)	987	92	958
Net loss	(2,877)	(1,458)	(4,272)	(1,090)
Net loss per share - basic and diluted	(0.03)	(0.02)	(0.05)	(0.01)

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

REVENUE

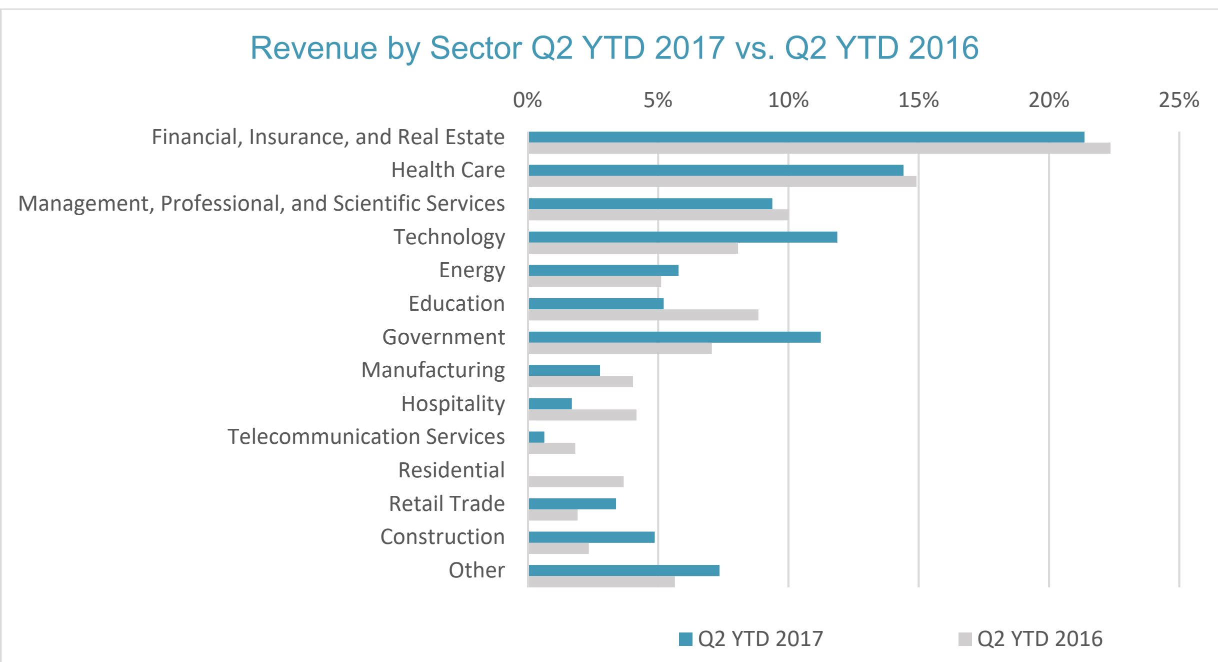
Revenue for Q2 2017 increased by $8.8 million (14.3%) over Q2 2016. This increase is attributable to a general increase in activity from small and medium-sized projects across a range of industry segments, including: healthcare, which increased from 13% of total revenue in Q2 2016 to 18% of total revenue in Q2 2017; technology, which increased from 7% of total revenue in Q2 2016 to 11% in Q2 2017; and energy and retail trade, each of which increased from 2% of total revenue in Q2 2016 to 5% in Q2 2017. In addition, the Company recorded installations revenue in Q2 2017 of $2.0 million compared with $0.3 million in Q2 2016.

The majority of our revenue is collected in US dollars, whereas our reporting currency is Canadian dollars. The resulting fluctuations in the US dollar against the Canadian dollar may have a positive or negative impact on our revenue. The US dollar (average rate) increased from 1.2882 in Q2 2016 to 1.3449 in Q2 2017, resulting in a positive impact on overall revenue in the period, as compared to the same quarter in 2016.



Revenue for YTD 2017 increased by $17.9 million (15.3%) over YTD 2016. This increase is attributable to a general increase in activity from small and medium-sized projects across a range of industry segments, including: technology, which increased from 8% of total revenue in YTD 2016 to 12% in YTD 2017; and government, which increased from 7% of total revenue in YTD 2016 to 11% in YTD 2017. In addition, the Company recorded installations revenue in YTD 2017 of $4.8 million compared with $0.4 million in YTD 2016.

The average US dollar exchange rate was essentially flat, increasing from 1.3297 in YTD 2016 to 1.3343 in YTD 2017. The resulting impact to the Canadian dollar value of US revenue for YTD 2017 was negligible.



GROSS PROFIT / ADJUSTED GROSS PROFIT / GROSS PROFIT % / ADJUSTED GROSS PROFIT %
Gross profit increased from $27.3 million in Q2 2016 to $29.9 million in Q2 2017, a 9.3% increase. However, gross profit % declined 190 basis points, from 44.6% to 42.7%. This decrease was due primarily to changes in product/service revenue, greater volatility in the timing of monthly and quarterly production volumes, and an increase in installations revenue which typically results in lower gross profit than our standard manufacturing process. Volatility in manufacturing volumes is evidenced by the decline from the record revenue levels achieved in both the third and fourth quarters of 2016 ($71.5 million and $78.3 million, respectively) to the seasonally lower results achieved in the first and second quarter of the current year.

Adjusted gross profit for Q2 2017 improved by 8.8%, from $28.2 million in Q2 2016 to $30.7 million in Q2 2017. However, adjusted gross profit % declined 220 basis points, from 46.1% to 43.9%, 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 impact of the higher US dollar to Canadian dollar average exchange rate (Q2 2017 – 1.3449; Q2 2016 – 1.2882) contributed to the increased gross profit and adjusted gross profit in Q2 2017 compared with Q2 2016.

Gross profit increased from $51.4 million in YTD 2016 to $56.9 million in YTD 2017, a 10.6% increase. However, YTD gross profit % declined 180 basis points, from 43.9% to 42.1%. This decrease was due primarily to changes in product/service revenue, greater volatility in the timing of monthly and quarterly production volumes, and an increase in installations revenue which typically results in lower gross profit than our standard manufacturing process.

Adjusted gross profit for YTD 2017 improved by 10.4%, from $53.0 million in YTD 2016 to $58.6 million in YTD 2017. However, adjusted gross profit % declined 190 basis points, from 45.3% to 43.4%, 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 %.

SG&A EXPENSES / ADJUSTED SG&A EXPENSES / SG&A % / ADJUSTED SG&A %
Selling, general and administrative ("SG&A") % increased by 200 basis points from 45.0% to 47.0% in Q2 2017 compared with Q2 2016. SG&A expenses increased by $5.4 million, or 19.5%, for Q2 2017 compared with Q2 2016. The increase reflects DIRTT's accelerated investment in long-term growth initiatives that were incurred in 2017. The most significant change can be attributed directly to sales-related efforts, as salaries and commissions increased by $2.6 million. These costs reflect the addition of personnel to generate and support higher business volumes, and commissions on the higher revenues attained in the period. Included in the increase of $2.6 million is $0.8 million related to severance and restructuring costs incurred during Q2 2017. Other increases in SG&A in Q2 2017 included travel and marketing costs of $1.8 million, depreciation and amortization expense of non-manufacturing-related assets of $0.8 million, rent expense of $0.2 million, and $0.6 million in other operating expense items. These increases were offset by a decrease in stock-based compensation of $0.2 million and professional service fees of $0.4 million. The increase in depreciation and amortization expense of non-manufacturing-related assets correlates with the increase in our investment in software and product development.

Included in SG&A costs for Q2 2017 and Q2 2016 is $3.5 million and $3.4 million, respectively, related to DIRTT Connext.

Adjusted SG&A % increased by 190 basis points from 38.5% to 40.4% in Q2 2017 compared with Q2 2016. Adjusted SG&A expenses increased by $4.7 million, or 20.1%, for Q2 2017 compared with Q2 2016. The cause of this increase is as discussed above with respect to SG&A, excluding the impact from increased non-cash depreciation and amortization of non-manufacturing-related assets and decreased stock-based compensation expenses incurred in the period. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and adjusted SG&A %.

SG&A % increased by 180 basis points from 43.3% to 45.1% in YTD 2017 compared with YTD 2016. SG&A expenses increased by $10.2 million, or 20.2%, for YTD 2017 compared with YTD 2016. This increase reflects DIRTT's improved operating results in the period and ongoing investment in long-term growth initiatives. The most significant change can be attributed directly to sales-related efforts, as salaries and commissions increased by $5.5 million. These costs reflect the addition of personnel to generate and support higher business volumes, and commissions on the higher revenues attained in the period. Included in the increase of $5.5 million is $0.9 million related to severance and restructuring costs incurred during YTD 2017. Other increases in SG&A in YTD 2017 included travel and marketing costs of $2.2 million, depreciation and amortization expense of non-manufacturing-related assets of $1.5 million, rent expense of $0.4 million, and $1.1 million in other operating expense items. These increases were offset by a decrease in stock-based compensation of $0.3 million and professional service fees of $0.2 million. The increase in depreciation and amortization expense of non-manufacturing-related assets correlates with the increase in our investment in software and product development.

Adjusted SG&A % increased by 190 basis points from 36.5% to 38.4% in YTD 2017 compared with YTD 2016. Adjusted SG&A expenses increased by $9.1 million, or 21.2%, for YTD 2017 compared with YTD 2016. 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 decreased stock-based compensation expense incurred in the period. See "Non-IFRS Measures" for a reconciliation of adjusted SG&A and adjusted SG&A %.

The impact of the higher US dollar to Canadian dollar average exchange rates during the three and six-month periods ended June 30, 2017 contributed to the overall increase in SG&A and adjusted SG&A expenses across the organization, as certain of these SG&A expenditures are denominated in US dollars.

ADJUSTED EBITDA / ADJUSTED EBITDA %

Adjusted EBITDA decreased $2.2 million for Q2 2017 compared with Q2 2016. Adjusted EBITDA % for Q2 2017 declined 420 basis points from 7.2% in Q2 2016 to 3.0% in Q2 2017. The decrease in Q2 2017 was mainly due to higher adjusted SG&A expenses of $4.7 million and partially offset by higher adjusted gross profit of $2.5 million. See "Non-IFRS Measures" for a reconciliation of Adjusted EBITDA and Adjusted EBITDA %.

Adjusted EBITDA decreased $2.8 million for YTD 2017 compared with YTD 2016. Adjusted EBITDA % for YTD 2017 declined 310 basis points from 7.6% in YTD 2016 to 4.5% in YTD 2017. The decrease in YTD 2017 was mainly due to higher adjusted SG&A expenses of $9.1 million, partially offset by higher adjusted gross profit of $5.5 million and a decrease in foreign exchange loss of $0.7 million. See "Non-IFRS Measures" for a reconciliation of Adjusted EBITDA and Adjusted EBITDA %.

Foreign exchange ("FX") gains or losses are primarily the result of the period-end revaluation of monetary assets and liabilities held within our Canadian companies, the largest components of which are holdings of US dollar cash and cash equivalents and long-term debt. The decrease in foreign exchange loss of $0.7 million is the result of significant fluctuations in the CAD-US exchange rate in the year-over-year periods. During Q2 2016, the US dollar decreased by $0.09 compared to year-end 2015, resulting in a $1.3 million loss on the revaluation of these monetary assets and liabilities. Conversely, the US dollar depreciated during Q2 2017 by $0.04 compared to year-end 2016, resulting in a $0.6 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 re-added in the determination of Adjusted EBITDA, as per reconciliation below.

($ thousands)	**Q2 2017**	**Q2 2016**	**Variance**	**Q2 YTD 2017**	**Q2 YTD 2016**	**Variance**
FX loss as reported	38	341	(303)	93	1,006	(913)
FX (gain) loss on debt revaluation	(266)	11	(277)	(499)	(306)	(193)
FX loss included in Adjusted EBITDA	**304**	**330**	**(26)**	**592**	**1,312**	**(720)**

INCOME TAX
Provision for income taxes comprises federal, state, local and foreign taxes based on pre-tax income. Income tax recovery for Q2 2017 was $0.2 million (Q2 2016 - $1.0 million income tax expense) and income tax expense for YTD 2017 was $0.1 million (YTD 2016 - $1.0 million). The reduction in income taxes reflects the year over year changes in temporary differences.

As at June 30, 2017, DIRTT had consolidated loss carry forwards of $27.6 million and US$3.7 million (December 31, 2016 - $21.9 million and US$3.8 million) for the Canadian and US entities, respectively. These losses expire in the years 2024 to 2036.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except per share amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Revenue	70,006	65,059	78,324	71,531	61,252	55,923	64,988	62,070
Gross profit	29,868	26,985	33,924	30,955	27,327	24,066	28,443	27,799
Gross profit %	42.7%	41.5%	43.3%	43.3%	44.6%	43.0%	43.8%	44.8%
Adjusted gross profit % (1)	43.9%	42.9%	44.4%	44.3%	46.1%	44.4%	45.1%	45.8%
Operating (loss) income	(3,057)	(998)	6,058	5,919	(216)	920	7,370	6,257
Adjusted EBITDA (1)	2,131	4,009	11,242	11,081	4,385	4,578	9,573	11,198
Adjusted EBITDA % (1)	3.0%	6.2%	14.4%	15.5%	7.2%	8.2%	14.7%	18.0%
Net (loss) income	(2,877)	1,395	4,345	4,029	(1,458)	368	9,127	5,446
Net (loss) income per share - basic and diluted	(0.03)	(0.02)	0.06	0.05	(0.02)	0.00	0.11	0.07

Note: (1) See “Non-IFRS Measures”.

The construction industry has historically seen seasonal slowdowns related to winter weather conditions and holiday schedules in the fourth and first quarters. DIRTT’s business has generally followed this trend with a bit of time lag leading to stronger sales in the second half of the year versus the first half.

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. Quarters that contain consistent monthly manufacturing volumes tend to generate higher gross profit than those where manufacturing levels vary significantly from month to month. Product/service revenue mix also tends to have an impact on gross profit: simplistic product/service revenue mix can result in lower gross profit, while “full solution” or comprehensive product/service revenue mixes tend to have higher gross profit.

DIRTT
Build better.

LIQUIDITY AND CAPITAL RESOURCES

CHANGES IN FINANCIAL POSITION

The following is a discussion of changes in the consolidated statement of financial position as at June 30, 2017.

As at *($ thousands)*	June 30, 2017	December 31, 2016	Change ($)	Change (%)	Explanation of changes
Current assets					
Cash and cash equivalents	77,944	93,554	(15,610)	(17%)	See "STATEMENT OF CASHFLOWS"
Trade and other receivables	29,280	32,078	(2,798)	(9%)	Reflects improvement in collection of receivables
Inventory	21,263	21,421	(158)	(1%)	Insignificant change
Prepaids and other current assets	2,504	2,058	446	22%	Reflects annual insurance renewals and miscellaneous deposits/expenditures
	130,991	149,111			
Current liabilities					
Trade accounts payable and other liabilities	22,131	27,206	(5,075)	(19%)	Reflects timing of payment of payables and other liabilities
Customer deposits	6,609	4,224	2,385	56%	Reflects timing and type of project orders at each period end
Current portion of long-term debt	5,371	5,091	280	5%	Reflects scheduled repayments
	34,111	36,521			
Working capital					
(Current assets minus Current liabilities)	96,880	112,590	(15,710)	(14%)	

As at *($ thousands)*	June 30, 2017	December 31, 2016	Change ($)	Change (%)	Explanation of changes
Non-current assets					
Property, plant and equipment	56,403	55,610	793	1%	Reflects additions of $7.8 million (mostly manufacturing equipment and leasehold improvements), partially offset by depreciation expense of $6.3 million, foreign exchange loss of $0.6 million and proceeds from disposal of certain assets of $0.1 million.
Intangible assets	23,387	19,961	3,426	17%	Reflects additions of $5.9 million (mostly capitalized salaries and benefits related to software and product development), partially offset by amortization expense of $2.5 million
Deferred tax assets	7,570	5,652	1,918	34%	Reflects year over year changes in temporary differences
Goodwill	1,845	1,845	-	0%	No change
Other assets	1,156	1,150	6	1%	Insignificant change
Non-current liabilities					
Deferred tax liabilities	1,155	1,170	(15)	(1%)	Insignificant change
Long-term debt	10,706	13,669	(2,963)	(22%)	Reflects scheduled repayments
Shareholders' equity					
Common share capital	196,069	195,000	1,069	1%	Reflects stock option exercises of $2.8 million and reduction in carrying value of share capital due to shares repurchased of $1.7 million
Warrants	-	37	(37)	(100%)	Reflects redemption of warrants in Q1 2017
Share-based payment reserve	11,415	10,253	1,162	11%	Reflects stock-based compensation expense, partially offset by stock option exercises during 2017
Accumulated other comprehensive income	7,254	8,719	(1,465)	17%	Reflects the softening of the US dollar on the translation of our US subsidiary operations
Accumulated deficit	(39,358)	(32,040)	(7,318)	23%	Net loss of $4.3 million and loss on shares repurchased of $3.0 million

STATEMENTS OF CASH FLOWS

The following table sets out the condensed consolidated cash flows for the three- and six-month periods ended June 30, 2016 and 2017.

($ thousands)	**Q2 2017**	**Q2 2016**	**Q2 YTD 2017**	**Q2 YTD 2016**
Cash flows provided by operating activities before changes in non-cash working capital (1)	108	3,804	4,369	6,486
Changes in non-cash working capital	(721)	9,864	(357)	8,450
Net cash flows (used in) provided by operating activities	(613)	13,668	4,012	14,936
Deduct:				
Net cash flows used in investing activities	(6,720)	(7,519)	(13,613)	(14,804)
Net cash flows used in (provided by) financing activities	(4,400)	4,357	(5,273)	3,257
Effect of foreign exchange on cash and cash equivalents	(501)	(157)	(736)	(922)
(Decrease) increase in cash and cash equivalents	(12,234)	10,349	(15,610)	2,467
Cash and cash equivalents, beginning of period	90,178	83,523	93,554	91,405
Cash and cash equivalents, end of period	**77,944**	**93,872**	**77,944**	**93,872**

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

At June 30, 2017, we had $77.9 million in cash and cash equivalents, compared with $93.6 million at December 31, 2016. At June 30, 2017, we also had access to an undrawn US$18.0 million revolving credit facility.

Throughout the remainder of 2017, we expect continued investment in product and software development to further expand our solution offerings, as well as in certain manufacturing equipment to support these developments. We also plan to continue investment in our existing GLCs to ensure each location represents DIRTT accurately with the latest innovations.

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 decreased by $14.3 million for Q2 2017 compared with Q2 2016. The decrease was primarily due to an increased investment in non-cash working capital items of $10.6 million, a decrease in Adjusted EBITDA of $2.2 million, an increase in cash taxes paid of $1.0 million during Q2 2017.

Net cash flows provided by operating activities decreased by $10.9 million for YTD 2017 compared with YTD 2016. The decrease was primarily due to an increased investment in non-cash working capital items of $8.8 million, a decrease in Adjusted EBITDA of $2.8 million and partially offset by a decrease in cash taxes paid of $1.1 million during YTD 2017.

NET CASH FLOWS USED IN INVESTING ACTIVITIES
Net cash flows used in investing activities for Q2 and YTD 2017 decreased by $0.8 million and $1.2 million, respectively, compared with the same periods in 2016. The decrease was related to a slight reduction in spend on investment in new manufacturing equipment, and in our company-owned GLCs. This decrease was partially offset by an increase in investment in product and software development as we continue our ongoing commitment to enhance and expand our solutions. Examples of this include the new residential interiors, timber frame construction and Leaf™, sustainable folding walls.

NET CASH FLOWS USED IN FINANCING ACTIVITIES
Net cash flows used in financing activities for Q2 2017 increased by $8.8 million compared with Q2 2016. The decrease was attributable to shares repurchased of $3.9 million under the Company's normal course issuer bid (the "NCIB") which did not occur in Q2 2016. This decrease was offset by a cashflow increase due to issuance of shares on exercise of stock options of $1.0 million and a decrease in loan repayments of $0.5 million compared to Q2 2016. The 2016 period had proceeds from additional debt of $5.3 million that did not occur in the 2017 period.

Net cash flows used in financing activities for YTD 2017 decreased by $8.5 million compared with YTD 2016. The decrease was attributable to shares repurchased of $4.8 million under the NCIB which did not occur in 2016. This decrease was offset by a cashflow increase due to issuance of share capital on exercise of stock options of $1.6 million compared to YTD 2016. The 2016 period had proceeds from additional debt of $5.3 million that did not occur in the 2017 period.

OUTSTANDING SHARE DATA
The total number of fully diluted outstanding and issuable common shares is as follows:

As at	August 2, 2017	June 30, 2017
Common shares	84,758,374	84,847,056
Stock options (1)	6,054,271	6,113,394
Total	90,812,645	90,960,450

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

CONTRACTUAL OBLIGATIONS
As at June 30, 2017, we have unpaid capital expenditure commitments of approximately $1.9 million for manufacturing equipment to be delivered in 2017. We will use our current cash on hand to fund these commitments.

MANAGEMENT OF CAPITAL RESOURCES
We aim to manage our capital resources to ensure financial strength and to maximize our financial flexibility. This is done 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 adjust it considering 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. 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.

On January 6, 2017, we announced receipt of approval from the TSX to commence an 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 908,475 Common Shares at a weighted average price of $6.29 per Common Share, including brokerage fees, for a total cost of $5.7 million through the NCIB.

In February 2017, we signed a fifth amendment to the amended and restated loan agreement with our lender, which included a change in the determination of the value of the minimum tangible net worth amount as it is reset at the end of each fiscal year. The minimum tangible net worth will be based on $135.0 million plus 50% of the consolidated net income for the fiscal year then ending less any amounts paid relating to a normal course issuer bid to a maximum of $25.0 million. As at June 30, 2017, the adjusted minimum tangible net worth was $133.8 million.

As at June 30, 2017 and December 31, 2016, the Company's tangible net worth was $181.3 million and $168.0 million, respectively. As at June 30, 2017 and December 31, 2016, the Company is in compliance with its lender's covenants.

TRANSACTIONS BETWEEN RELATED PARTIES

Commencing in the fourth quarter of 2016 and continuing into 2017, an officer and director of the Company, Mogens Smed, purchased various DIRTT solutions from the Company for his primary residence. This residence is frequently showcased to DIRTT clients, sales partners and sales partners' clients, and will continue to be a focal point that demonstrates the DIRTT solution. The project was priced at materials plus 10%, with the remaining terms and conditions in accordance with standard business practices. Of the $0.7 million outstanding accounts receivable noted in the below chart, $0.5 million was related to third-party purchases made on behalf of Mogens Smed. The Company also incurred $0.4 million in labor, installation and other services as a non-monetary benefit to Mr. Smed. Details of the revenue earned, outstanding accounts receivable and any deposits received by the Company pursuant to this project are outlined below for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands)	2017	2016	2017	2016
Revenue earned	380	-	746	-
As at			**June 30, 2017**	**December 31, 2016**
Outstanding accounts receivable			730	-
Deposits received			-	188

A DIRTT sales partner, Lane Office Furniture Inc., is owned by a director of the Company, Gregory Burke. The Company reported the following transactions with this Partner for the following periods:

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands)	2017	2016	2017	2016
Revenue earned	1,738	3,063	3,426	5,129
Rebates paid	36	7	57	26
As at			**June 30, 2017**	**December 31, 2016**
Outstanding accounts receivable			171	560
Deposits received			60	-

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.

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 are 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 condensed consolidated statements of net loss and comprehensive loss.

($ thousands)	**Q2 2017**	**Q2 2016**	**Q2 YTD 2017**	**Q2 YTD 2016**
Revenue	70,006	61,252	135,065	117,175
Cost of goods sold ("COGS")	40,138	33,925	78,212	65,782
Gross profit	**29,868**	**27,327**	**56,853**	**51,393**
Gross profit %	**42.7%**	**44.6%**	**42.1%**	**43.9%**
Add back:				
Depreciation included in COGS	833	899	1,724	1,642
Adjusted gross profit	**30,701**	**28,226**	**58,577**	**53,035**
Adjusted gross profit %	**43.9%**	**46.1%**	**43.4%**	**45.3%**

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 net loss and comprehensive loss.

($ thousands)	**Q2 2017**	**Q2 2016**	**Q2 YTD 2017**	**Q2 YTD 2016**
SG&A	32,925	27,543	60,908	50,689
Less: Depreciation included in SG&A	(3,626)	(2,806)	(7,032)	(5,531)
Less: Stock-based compensation expense included in SG&A	(998)	(1,171)	(1,996)	(2,343)
Adjusted SG&A	**28,301**	**23,566**	**51,880**	**42,815**
Adjusted SG&A %	**40.4%**	**38.5%**	**38.4%**	**36.5%**

ADJUSTED EBITDA AND ADJUSTED EBITDA %

EBITDA represents an indication of the Company'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 net loss and comprehensive loss.

($ thousands)	Q2 2017	Q2 2016	Q2 YTD 2017	Q2 YTD 2016
Net loss for the period	(2,877)	(1,458)	(4,272)	(1,090)
Add back (deduct):				
Interest income	(141)	(148)	(284)	(308)
Finance costs	168	62	316	138
Income tax (recovery) expense	(245)	987	92	958
Depreciation included in COGS	833	899	1,724	1,642
Depreciation and amortization included in SG&A	3,626	2,806	7,032	5,531
EBITDA	**1,364**	**3,148**	**4,608**	**6,871**
Stock-based compensation	998	1,171	1,996	2,343
Non-cash foreign exchange (gain) loss on debt revaluation	(266)	11	(499)	(306)
Other non-cash adjustments (1)	35	55	35	55
Adjusted EBITDA	**2,131**	**4,385**	**6,140**	**8,963**
Adjusted EBITDA %	**3.0%**	**7.2%**	**4.5%**	**7.6%**

CASH PROVIDED BY OPERATING ACTIVITIES BEFORE CHANGES IN NON-CASH WORKING CAPITAL

Cash provided by operating activities before changes in non-cash working capital is a non-IFRS performance measure that could provide an indication of our ability to generate cash flows from operations. It is calculated by re-adding 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 condensed consolidated statements of cash flows.

($ thousands)	Q2 2017	Q2 2016	Q2 YTD 2017	Q2 YTD 2016
Net cash flows (used in) provided by operating activities	(613)	13,668	4,012	14,936
Changes in non-cash working capital	721	(9,864)	357	(8,450)
Net cash flows provided by operating activities before changes in non-cash working capital	**108**	**3,804**	**4,369**	**6,486**

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our activities expose us to a variety of financial risks: credit; liquidity; market; interest rate; foreign exchange; and commodity price. 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 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 nil bad debt expense for the three and six-month periods ended June 30, 2017 and 2016.

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, 2017, 63.1% (December 31, 2016 – 50.7%) 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 Partners, 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, 2017, the amount outstanding was $1.3 million, with a net of allowance for doubtful accounts of $0.7 million (December 31, 2016 - $7.1 million and, $0.7 million, respectively). 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 the Company's financial instruments were determined as follows:

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

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 the cost-effective experience and multiple efficiencies created with DIRTT Solutions result in a superior alternative to conventional construction, across all sectors of the construction industry. We expect ongoing pursuit of further opportunities in the healthcare, education, government, corporate and residential sectors, and we expect to see rising global construction activity result in increased revenue. Revenue growth is monitored as a key metric in the evaluation of our long-term business growth strategy, which is comprised of five core initiatives, as follows:

(1) Increase penetration of existing markets. We maintain increased investment in programs that support our existing sales Partners throughout North America and international markets. This includes our previously announced programs to support our top-tier Partners and develop our next-tier Partners for increased market penetration and higher profitability, our DIRTT Green Learning Center loan program, and increasing investment in the research and development of product innovations and ICE software to support market-specific solutions. Collectively, we believe these are contributing factors to the momentum we are seeing as we enter the latter half of the year.

(2) Expand into new geographies, such as the Middle East, India, Southeast Asia, United Kingdom and Europe. DIRTT's first international Partner, NMG Workplace Solutions, maintains significant investment into their business as they identify and secure healthcare opportunities throughout the Middle East region. Healthcare offers immense potential within the Middle East and NMG has recently secured several important projects within that market. We expect continued growth in that region with NMG. External to North America and the Middle East, DIRTT continues its international expansion with investment in the following: the June 2017 addition of a Partner in the United Kingdom, Architectural Wallsz, alongside our DIRTT-owned Green Learning Center in London; our Partner in Singapore, ITS Group; and our Partner in India, Shreeji Innova. Escalating construction costs, labor challenges, increasing demand for high-quality materials and timeline pressures present further opportunities for strategic international expansion and long-term growth.

(3) Target and penetrate new industry verticals. We intend continued investment as we progress further into new markets including residential and create solutions tailored to that market, such as the Leaf™ sustainable folding wall, which now supports integrated technologies within the wall; and continued development of timber frame construction.

(4) Accelerate investment in new solutions and technologies. Throughout the remainder of 2017, we expect continued investment in product and software development to further expand our solution offerings, as well as in certain manufacturing equipment to support these developments. We also plan to continue investment in our existing GLCs to ensure each location represents DIRTT accurately with the latest innovations. We believe our software innovations, such as ICEreality™ and ICE's recently unveiled experience that allows multiple people to explore a space in mixed reality in real-time and from separate locations—will change the way people design, create, collaborate and build interiors.

(5) Build and maintain strategic partnerships with industry leaders to monetize solutions, with continued investment resulting in partnerships such as, for example, this year's integration of ICE software with SAP's enterprise resource planning system.

We believe the investment our Partners are making in our business, such as increased investment in Green Learning Centers and higher attendance at DIRTT Connext, are collectively indicative of long-term prospects for our business.

The American Institute of Architects' ("AIA") Architecture Billings Index can be a useful leading economic indicator of how US non-residential billings activity could trend. The most recent June billings activity numbers continued to show growth nationally and regionally in the Northeast, Midwest and West. The increasing demand for design services will likely help future billings activity. Both DIRTT and the AIA believe these overall numbers point to solid fundamentals that could support growth across all segments of the building industry for the next nine to 12 months.

UPDATE ON SIGNIFICANT CONTRACT

On April 25, 2017 DIRTT announced the award of a Fortune 100 company's multi-location project contract worth approximately US$5.0 million. The original scope involved 17 locations and DIRTT's full suite of solutions (walls, power, data, millwork and other). The client cited DIRTT's technology-backed ability to meet the custom interior requirements quickly and with cost certainty as determining factors in choosing DIRTT. As of July 2, 2017, the scope has grown to include 66 locations, valued at US$32.7 million (in excess of $40 million), the majority of which we expect to recognize over the latter half of 2017 and throughout 2018. In anticipation of this significant increase, DIRTT added dedicated resources and transitioned key team members to work exclusively on this contract's projects. This has added to our SG&A costs in the short term but is a critical investment; there exists an ongoing opportunity for a continued scope increase of this contract.

WEAKENING OF US DOLLAR

Approximately 80% to 85% of DIRTT's revenue is denominated in US dollars, and the US dollar weakened significantly against the Canadian dollar in the time periods leading up to and subsequent to quarter end. To offset the potential for resulting volatility, DIRTT maintains significant US-based operations; approximately 45% to 50% of costs remain based in US dollars.

CRITICAL ACCOUNTING ESTIMATES

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

There have been no significant changes in our critical accounting estimates since December 31, 2016.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

DISCLOSURE CONTROLS AND PROCEDURES

Based on the evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), the Chief Executive Officer and the Chief Financial Officer concluded that DIRTT's DC&P and ICFR were effective as of June 30, 2017. There were no changes to the Company's ICFR during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ADVISORY

FORWARD-LOOKING INFORMATION
This MD&A contains certain forward-looking statements and other information (collectively, "forward-looking information") about the Company's expectations, estimates, projections and/or assumptions concerning, among other things, future operating results and/or future economic performance. Any statements relating to future events or performance (often, but not always, through the use of such words as "anticipate", "believe", "expect", "estimate", "intend,", "plan", "project", "outlook" or similar expressions) are not historical facts and may be forward-looking information. These statements are based on management's estimates, beliefs and assumptions and necessarily involve unknown risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed or implied in such statements. Readers are therefore cautioned not to place undue reliance on 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 anticipated use of our credit facilities; our growth strategies and opportunities; our ability to meet working capital requirements and financial obligations; and our outlook for our operations in light of the Canadian, United States (the "US") and international economies, and in particular, the US and Canadian construction industry.

The forward-looking information in this MD&A is based on assumptions 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 disclosed in our AIF for the year ended December 31, 2016.

For a detailed discussion of the Company's risk factors, see our AIF for the year ended December 31, 2016. Readers are urged to consider these factors carefully in evaluating the forward-looking information.

Readers are cautioned that the foregoing lists are not exhaustive and are made as of the date hereof. Except as required by law, the Company does not undertake to update any forward-looking information whether as to new information, future events or otherwise.

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.