

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This interim Management Discussion and Analysis ("MD&A") is dated as at May 4, 2009 and should be read in conjunction with the interim unaudited consolidated financial statements and the notes thereto for the three months ended March 31, 2009, included herein, and with the audited consolidated financial statements and notes thereto for the year ending December 31, 2008. In this MD&A, "IMRIS", the "Company", "we", "our" and "us" are used to refer to IMRIS Inc.*

*This MD&A contains forward-looking statements about future events or future performance and reflects management's expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, statements regarding our future operating results, economic performance and product development efforts are or involve forward-looking statements.*

*A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors which could cause future outcomes to differ materially from those set forth in the forward-looking statements include, but are not limited to: [i] timing and amount of revenue recognition of order backlog and the Company's expectation of sales and margin growth [ii] obtaining sufficient and suitable financing to support operations and commercialization of products, [iii] adequately protecting proprietary information and technology from competitors, [iv] obtaining regulatory approvals and successfully completing new product launches, [v] successfully competing in the targeted markets, and [vi] maintaining third party relationships, including key personnel, and key suppliers. In evaluating these forward-looking statements, readers should specifically consider various factors, including the risks outlined under "Risks and Uncertainties", which may cause actual events, performance or results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this MD&A are based on what management considers to be reasonable assumptions, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update or revise them to reflect new events or circumstances.*

### **Overview**

IMRIS is a global leader in providing fully integrated surgical imaging solutions designed to measurably improve patient outcomes. The Company's flagship product, IMRISneuro, is a fully integrated operating room that combines IMRIS' patented magnet mover technology and IMRIS' surgical information management system to provide surgeons with near real-time high resolution MR images during a surgical procedure, enabling them to make better decisions with the ultimate goal of improving patient outcomes.

Surgical imaging is the ability to obtain images of patient anatomy during the course of surgical or interventional procedures. In the past, surgeons relied on pre-operative images to plan a surgical procedure and post-operative images to confirm whether they had achieved the desired results. More recently, surgical imaging systems have been introduced that provide surgeons with current images of patient anatomy while the surgical procedure is still in progress. Using the information provided by these real-time images, surgeons can make effective adjustments to the surgical procedure while it is in progress, often leading to improved patient outcomes and reducing the likelihood that repeat surgeries will be needed.

The benefits of surgical MR imaging are particularly well recognized in the field of neurosurgery. Due to the invasive nature of brain surgery and the importance of minimizing disturbance to healthy brain tissue, neurosurgical procedures particularly benefit from an MRI's unique ability to distinguish between diseased and healthy brain tissue.

Our IMRISneuro system adopts a novel approach to surgical MR imaging based on three principles; patient safety, surgical efficiency and financial utility. IMRISneuro uses patented technology to move the MRI scanner to the patient, rather than moving the patient to the scanner, while the surgery is in progress. The MRI scanner is moved on an overhead set of rails from an adjacent suite into the operating room and is positioned directly over the patient at the appropriate time during the surgical procedure. The patient therefore does not need to be moved for scanning, reducing the associated risks to the patient while maintaining optimum patient positioning. At the same time, since the MRI scanner is only present inside the operating room for a few minutes while scanning, the surgical team is afforded unrestricted access to the patient and does not need to use special MR-compatible instruments for the surgery. Finally, when not in use during surgery, the MRI scanner is located in an adjacent room and can be used to provide diagnostic MR imaging, thereby ensuring that the hospital obtains maximum utility from its MRI equipment.

IMRISneuro has been validated by leading neurosurgeons around the world for use in world-class neuroscience centers and has become the market-leading surgical MR imaging system. To date, we have sold 28 systems, 14 of which are installed and 14 of which are in the delivery phase. Of the 28 systems sold, 19 are in the United States, 5 are in Canada and 4 systems are in Asia Pacific.

We continue to develop a new product, IMRIScardio, for use in interventional cardiovascular procedures. IMRIScardio utilizes many of the same system components and is intended to offer many of the same benefits of the IMRISneuro system. Cardiovascular interventionists can use information derived from MR images to measure the effectiveness of interventional procedures. This allows the interventionist to make immediate treatment decisions, such as the introduction of further interventional measures or the determination to proceed to surgery, which may ultimately improve the outcome for the patient.

## **IMRIS Business Model**

The purchase and installation of an IMRISneuro system represents a significant capital project for our customers. The price of an integrated IMRISneuro system ranges from approximately \$3.5 million to \$8.5 million, depending on the room configuration and the level of integration services. In addition to the purchase of our equipment, our customers may require a further \$1 million to \$3 million or more in additional capital expenditures for room construction and ancillary operating room equipment.

The large capital expenditure associated with the purchase of an IMRISneuro system necessitates that we engage with a number of different stakeholders within and outside the hospital including representatives from neurosurgery, radiology, facilities management and administration. As a result, the sales cycle associated with the marketing of our systems is both complex and lengthy, with a typical sales cycle of more than 12 months from initial customer engagement to our receipt of a purchase order.

Following the receipt of a customer purchase order, the delivery and installation cycle for one of our systems typically ranges from five months to twelve months or more depending in part on the configuration of our system, but also dependent on the amount of additional construction work that may be required to be completed by the customer. In certain cases, the purchase and installation of our system may be part of a larger hospital construction project and our delivery cycle may be considerably longer. Our delivery cycle includes a phase for initial design and obtaining of permits, structural site construction activities carried out by the hospital and our subcontractors, installation of our overhead rail system, the delivery and installation of the MRI scanner and the remaining system components and final testing and integration of the system.

Given the lengthy delivery cycle, our terms of sale are such that we invoice our customers for the system in installments spread over a number of milestones. These milestones typically include a deposit at the time of order; and a percentage of the total system price upon delivery of the equipment, completion of installation and final acceptance. Due to the project nature of our system sales, we recognize revenues and related cost of sales on a percentage-of-completion basis as the system is installed.

As a result of our relatively short operating history, and the limited number of systems sold and installed to date and the high dollar value associated with each sale, our revenues recorded from quarter to quarter may vary significantly depending on the number and stage of active projects in any given quarter. We expect that quarter over quarter results in the future will continue to fluctuate in the near term for these reasons.

## First Quarter Operating Highlights

In the first quarter of 2009, the Company achieved the following highlights:

- We received purchase orders for three new systems increasing our order backlog (defined below) to \$84.1 million at the end of the quarter, a 24% increase over the order backlog at the end of 2008 and a 145% increase over the order backlog as at March 31, 2008.
- Sales increased 16% to \$4.8 million for the quarter ended March 31, 2009 compared to \$4.2 million in the first quarter of 2008.
- Gross profit on sales improved to 38.5% in the first quarter versus 9.7% in the first quarter 2008.
- Subsequent to quarter end, we have received European CE regulatory approval for IMRIScardio and IMRISNV and expect FDA approval in the next three months.

## Summary of Selected Financial Information

The following table sets forth selected financial information for the dates and periods indicated and should be read in conjunction with our interim unaudited consolidated financial statements and notes thereto for the three months ended March 31, 2009.

	Three months ended		
	March 31		
	2009	2008	Change
<b>Statement of Operations</b> (In CDN dollars) (Unaudited)			
Sales	\$ 4,804,279	\$ 4,158,136	16%
Cost of sales	2,956,468	3,756,113	-21%
<b>Gross Profit</b>	<b>1,847,811</b>	<b>402,023</b>	<b>360%</b>
As a percentage of sales	38.5%	9.7%	
Operating expenses			
Administration	1,474,344	1,741,635	-15%
Sales and marketing	1,704,122	1,322,545	29%
Customer support and operations	1,065,352	911,610	17%
Research and development	1,077,369	903,844	19%
Amortization	498,737	250,698	99%
	5,819,924	5,130,332	13%
Loss before the following	(3,972,113)	(4,728,309)	-16%
Foreign exchange gain	336,796	52,492	542%
Interest income	4,270	271,305	
<b>Net loss for the period</b>	<b>\$ (3,631,047)</b>	<b>\$ (4,404,512)</b>	<b>-18%</b>
Basic and fully diluted loss per share	\$ (0.13)	\$ (0.16)	-19%

## **Operating Results**

### *Sales*

Sales in the first quarter were \$4.8 million, an increase of \$0.6 million or 15.5% over the first quarter of 2008. Sales for the first quarter of 2009 included \$4.5 million of revenues associated with new system deliveries and \$0.3 million of revenues associated with extended maintenance contracts.

### *Gross Profit*

The gross profit for the first quarter of 2009 was \$1.8 million, an increase of \$1.4 million from 2008. Gross profit percentage increased from 9.7% in 2008 to 38.5% in 2009. With the benefits of our system now well recognized in the market place, we have moved our pricing strategy from market penetration to value based, resulting in higher gross margins.

### *Operating expenses*

Operating expenses for the quarter were \$5.8 million, an increase of approximately \$0.7 million or 13% over the first quarter of 2008. This increase is reflected across most major functional areas of the Company including sales and marketing, and customer support and operations and research and development. A considerable amount of the increases in the departmental expenses is attributable to higher staff levels. As at March 31, 2009, the Company had 121 employees versus 101 at the end of the first quarter of 2008. The company has added 3 net positions since December 31, 2008.

At the departmental level, administrative expenses decreased by approximately \$0.3 million from \$1.7 million in the first quarter of 2008 to \$1.4 million in the first quarter of 2009. This decrease is primarily comprised of decreased recruiting expenses (\$0.1 million) and decreased professional fees (\$0.2 million).

Sales and marketing expenses increased by approximately \$0.4 million from \$1.3 million in the first quarter of 2008 to \$1.7 million in the first quarter of 2009. This increase is comprised of higher salary related costs (\$0.2 million), an increase of approximately \$0.1 million due to the strengthening of the U.S. dollar versus the Canadian dollar and increased costs associated with a having more international offices (\$0.1 million).

Customer support and operations expense increased by approximately \$0.2 million; from \$0.9 million in the first quarter of 2008 to \$1.1 million in the first quarter of 2009. Virtually all of this increase relates to increased staff levels.

Research and development expenses in the first quarter of 2008 were approximately \$1.1 million, an increase of \$0.2 million from first quarter in 2008. This increase is primarily caused by increased staff levels (\$0.1 million) and increased components and outside consultants (\$0.1 million) required for research and development projects.

Amortization expense increased \$0.2 million to approximately \$0.5 million versus \$0.3 million in the first quarter of 2008. The increased amortization expense results from the 2008 additions to the research and development test lab.

The company had a foreign exchange gain of \$0.3 million in the first quarter of 2009 compared to \$0.1 in 2008. The exchange gains during the quarter resulted primarily from the increase in value of the US dollar relative to the Canadian dollar. The majority of the company's sales are denominated in U.S. dollars, as such we have held U.S. dollars during the period and we are positively impacted as the U.S. dollar strengthens against the Canadian dollar.

Interest income decreased by \$0.3 million as compared to 2008 as a result of the extremely low yields on short term government bonds, especially the US dollar denominated investments and lower cash balances. Given the current yields, the Company does not expect any significant interest income for the remainder of 2009.

## Net loss for the period

Our net loss for the quarter ended March 31, 2009 was \$3.6 million, a decrease of 18% compared to the loss of \$4.4 million in the first quarter of 2008. This was mainly due to the higher sales volume and the improved gross margins.

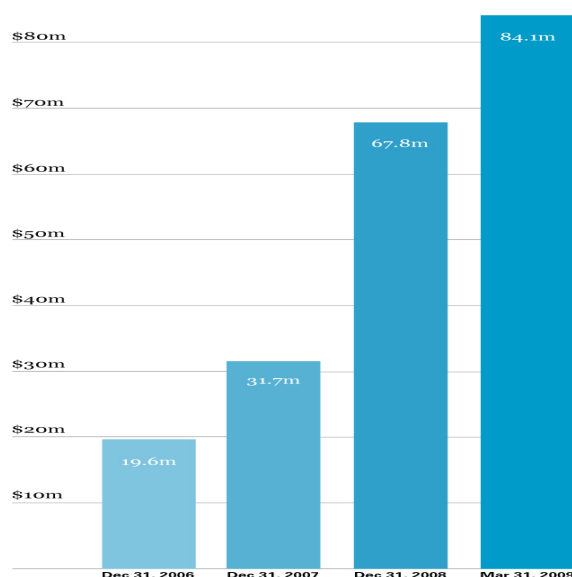
## Summary of Quarterly Results

The following table is a summary of our financial results for the past eight quarters.

(In CDN dollars) (Unaudited)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Sales	\$ 2,484,586	\$ 7,969,788	\$ 3,424,391	\$ 4,158,136	\$ 8,191,072	\$ 4,869,433	\$ 5,733,845	\$ 4,804,279
Cost of sales	2,318,242	7,267,342	2,957,390	3,756,113	6,733,398	3,541,973	4,312,698	2,956,468
Gross Profit	166,344	702,446	467,001	402,023	1,457,674	1,327,460	1,421,147	1,847,811
As a percentage of sales	6.7%	8.8%	13.6%	9.7%	17.8%	27.3%	24.8%	38.5%
Operating expenses								
Administration	1,406,197	1,269,776	1,789,978	1,741,635	1,613,014	1,733,936	1,718,663	1,474,344
Sales and marketing	1,006,347	735,273	1,068,448	1,322,545	1,638,278	1,747,905	1,741,730	1,704,122
Customer support and operations	1,195,937	979,915	954,769	911,610	1,041,746	1,021,536	955,378	1,065,352
Research and development	866,634	697,512	826,382	903,844	1,110,014	1,419,993	1,271,654	1,077,369
Amortization	232,788	245,132	248,581	250,698	269,613	432,931	503,793	498,737
	4,707,903	3,927,608	4,888,158	5,130,332	5,672,665	6,356,301	6,191,218	5,819,924
Loss before the following	(4,541,559)	(3,225,162)	(4,421,157)	(4,728,309)	(4,214,991)	(5,028,841)	(4,770,071)	(3,972,113)
Foreign exchange (loss) gain	8,900	(222,632)	127,621	52,492	(45,218)	230,763	880,516	336,796
Interest income (expense)	3,830	(11,545)	224,368	271,305	196,939	118,060	74,463	4,270
Net loss for the period	\$ (4,528,829)	\$ (3,459,339)	\$ (4,069,168)	\$ (4,404,512)	\$ (4,063,270)	\$ (4,680,018)	\$ (3,815,092)	\$ (3,631,047)
Basic and diluted loss per share	\$ (0.26)	\$ (0.17)	\$ (0.16)	\$ (0.16)	\$ (0.15)	\$ (0.17)	\$ (0.14)	\$ (0.13)

As noted in the IMRIS Business Model section above, as a consequence of the limited number of systems sold to date and the high dollar value associated with each sale, our revenues from quarter to quarter tend to vary significantly.

## **Order Backlog**



*The order backlog is defined as the unrecognized portion of the revenues anticipated to be recorded from confirmed system orders, including the next twelve months of revenues to be derived from executed service contracts.*

During the first quarter of 2009, we received purchase orders for three new systems. Our order backlog increased to \$84.1 as at March 31, 2009 compared to \$67.8 million as at December 31, 2008 and \$31.7 million at the end of 2007. We have been able to convert past order backlog to recognized revenue as a result of the contracts underlying these orders and we are confident that we will convert our present order backlog to recognized revenue going forward.

## **Outlook**

Since the formation of the Company in 2005, we focused our efforts on gaining market acceptance for our products and on ensuring the successful delivery of each customer installation by developing core competencies across all facets of the organization. Our efforts to date have resulted in increased market acceptance for our IMRISneuro product suite, which is best demonstrated by the positive trend in our sales results and by the consistent quarter over quarter backlog growth. As we move into 2009, we are focused on converting these orders into deliveries and generating new orders.

The installation of our systems is relatively complex. Following the receipt of a customer purchase order, the delivery cycle for one of our systems typically ranges from five to twelve months or more. In some cases, the delivery of our system is a part of a larger hospital construction project, and the delivery cycle may be considerably longer and may be subject to delays for a number of reasons beyond our control. While IMRIS generally has little influence on the overall construction schedule of our customers, we believe that by taking an active role in managing each customer program that we can minimize the potential for delays and shorten our delivery cycle. A group of dedicated program managers works directly with each customer to keep those elements of the delivery cycle that are within the Company's control on schedule.

Looking ahead, we expect continued improvement in our gross profit margin, albeit at a slower pace than the growth seen in the first quarter of 2009. As previously noted, in our established markets, we moved our pricing strategy from market penetration to value based, contributing to our improvement in profit margins. We are also seeing margin expansion as a result of our efforts to reduce the direct costs of our systems. Margins are also expected to improve in 2009 if the current foreign exchange rates remain stable.

Operating expenses in for the remainder of 2009 are expected to increase only modestly over 2008 levels. The Company has reached a point where we do not foresee the need to materially increase our staffing or resulting operating expenses to meet the anticipated growth in operations.

We continue to be optimistic about our long-term prospects; however we also recognize that we are not immune to the current macro-economic challenges facing all businesses as a result of the weakened credit environment. We recognize that the current economic climate may impact the spending decisions of some potential customers, and we will continue to monitor the situation and take the necessary measures to ensure the long term sustainability and growth of our business.

Our strategies for near-term growth and value-creation include the continued focus on marketing our products globally and through the introduction and development of new products such as IMRIScardio and IMRIS NV (neurovascular) which we believe will open entirely new markets and revenue streams for the Company. We have adequate cash resources, with a substantial order backlog, providing us with the required resources to continue to grow our business and invest in new product development. Over the near term, we will be particularly focused on generating additional orders for IMRISneuro, carefully managing our expenses and improving our gross profit margins.

Our longer term objectives include continued innovation and development of high value imaging solutions for specific surgical applications, the strengthening of our technology base and competitive barriers and the growth of recurring revenue sources.

## **Liquidity and Capital Resources**

Our principal capital needs are for funding scientific research and development programs, supporting our sales and marketing activities and funding capital expenditures and working capital. The Company has financed its cash requirements primarily through issuances of securities and advance deposits from customers associated with new customer orders.

We had cash or cash equivalents of \$12.7 million as at March 31, 2009, a decrease of \$5.9 million over December 31, 2008. The decrease in cash from the prior period resulted from the cash operating loss of \$3.0 million, increase in working capital \$1.9 million and capital spending of \$1.0 million.

The following table sets forth the summary statement of cash flows for the periods indicated and should be read in conjunction with our unaudited consolidated financial statements and notes thereto for the three months ended March 31, 2009.

<b>Statements of Cash Flows</b>			
(In CDN dollars)			
(Unaudited)			
Three Months Ended			
March 31			
	2009	2008	Change
Cash flows:			
From Operating Activities	\$ (4,870,805)	\$ (2,174,292)	\$ (2,696,513)
Used in Financing Activities	(2,828)	(41,320)	38,492
Used in Investing Activities	(1,023,808)	(184,151)	(839,657)
Net decrease	(5,897,441)	(2,399,763)	(3,497,678)
Cash and cash equivalents, opening	18,597,333	30,803,989	
Cash and cash equivalents, closing	\$ 12,699,892	\$ 28,404,226	\$ (15,704,334)

## Operating Activities

The cash used in operating activities for the quarter ended March 31, 2009 was approximately \$4.9 million. The cash used in the quarter was comprised of the operating loss (excluding non-cash related items) for the period of approximately \$3.0 million and a \$1.9 million increase in working capital. This increase in working capital is made up of an increase in receivables (net of customer deposits) (\$0.4 million), an increase in prepaid expenses (\$0.9 million) and an increase in inventory (\$0.7 million), offset by a decrease in accounts payables and accruals (\$0.1 million).

## Financing Activities

Cash used in financing activities in the quarter relate to payment of capital lease obligations.

## Investing Activities

The cash used in investing activities for the quarter ended March 31, 2009 was approximately \$1.0 million and was used entirely for capital equipment purchases. Capital expenditures for the quarter ended March 31, 2009 included \$0.9 million related to the creation of a research facility for MR guided radiation therapy. The remainder of the additions (\$0.1 million) were for miscellaneous other equipment.

Capital expenditures for the balance of the 2009 are expected to be in the range of \$2.3 to \$2.6 million. Included in the total will be additional expenditures of approximately \$1.5 million for the research facility and approximately \$0.5 million relating to a new enterprise resource planning (ERP) system being implemented in the fourth quarter of 2009.

## Liquidity and Capital Resources Summary

Our cash and cash equivalents as at March 31, 2009 totaled \$12.7 million. This cash position, together with our expectation that we will generate positive cash flow from operations including the customer deposits on future orders, is expected to provide sufficient liquidity to meet the anticipated needs of ongoing operations and existing projects including the funding of current research and development programs and budgeted capital asset expenditures.

## Outstanding Share Data

The following table sets forth our outstanding share data as at the dates given:

	Authorized	May 4, 2009	December 31, 2008
Common shares	unlimited	\$66,004,430 (27,357,013 common shares)	\$65,992,820 (27,352,513 common shares)
Preferred shares	unlimited	Nil	Nil
Contributed surplus		\$1,406,414	\$1,228,193

As at May 4, 2009 a total of 3,779,460 stock options were outstanding under the Company's stock option plan

## **Financial Instruments**

Our financial instruments consist of cash and cash equivalents, accounts receivables, unbilled receivables, accounts payable and accrued liabilities and long-term debt.

We are subject to credit risk with respect to our accounts receivable and unbilled receivables to the extent debtors do not meet their obligations and we are subject to foreign exchange risk with respect to financial instruments denominated in a currency other than the Canadian dollar.

Our short-term investments at March 31, 2009 were \$10.4 million and were invested in interest bearing saving accounts and short term bank deposits. Of this total, \$4.2 million was denominated in U.S. dollars.

Our accounts receivable at March 31, 2009 were \$7.0 million, of which \$6.5 million is considered current (less than 60 days old). \$4.2 million of the total accounts receivable were denominated in U.S. dollars.

## **Related Party Transaction**

The Company leases air travel time from 5343381 Manitoba Ltd., a company which is wholly owned by Centara Corporation, a corporation controlled by David Graves, our President & Chief Executive Officer. The amount charged to travel expenses with respect to transactions conducted on an estimated third party comparable cost basis with this related party during the first quarter of 2009 was \$153,300 versus \$148,200 during the first quarter of 2008.

As at March 31, 2009, the balance payable to this related party was \$68,880 versus \$41,580 as at December 31, 2008.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Among the accounting estimates described in the notes to the financial statements, we consider the accounting estimates used in the determination of recognized revenues, the value of goodwill and the valuation of stock options to be critical. Our results as determined by actual events could differ materially from the previously mentioned estimates.

### *Revenue recognition*

We recognize revenues for our system sales on a percentage-of-completion basis as the system is installed. The percentage-of-completion is determined by the ratio of actual costs incurred to date to the estimated cost of completion for the project. In the event that the actual costs of completion differ from the estimated cost we have used in determining the percentage-of-completion, recognized revenues may be over or under-estimated until all costs have been incurred and the project is complete. Funds received from our customers in advance of meeting the criteria for recognition of revenues are recorded as customer deposits until the revenue is recognized. Revenues recognized in advance of the criteria for invoicing to our customer are recorded as unbilled receivables. Accordingly, the reported amounts shown on the balance sheet under customer deposits or unbilled receivables may be over or understated.

Interest income is recognized as earned.

### *Value of goodwill*

We recorded goodwill on the purchase of the assets of a predecessor company. The value of goodwill is tested for impairment annually or more frequently if an event or circumstance occurs which we feel may result in an impairment of the value of goodwill.

### *Stock based compensation plan*

From time to time we issue stock options to employees, directors, officers or consultants. We have adopted the recommendations of Section 3870 of the Canadian Institute of Chartered Accountants' Handbook, "Stock Based Compensation and Other Stock Based Payments". Options granted to employees are valued at the grant date using the Black-Scholes option pricing model which requires management to make assumptions as to volatility, exercise date and option life. The value of the options is expensed over the vesting period of the options, generally a period of four years. Options granted to non-employees are valued at the grant date using the Black-Scholes option pricing model. The options are expensed at the time the goods are received or services performed, or over the vesting period.

### **Changes in Accounting Policies**

*Goodwill, Intangible Assets and Financial Statement Concepts*; In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. The standard requires retroactive application to prior period financial statements. The adoption of the standard has had no material impact on our financial position or results of operations.

### **International Financial Reporting Standards (IFRS)**

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under IFRS effective January 1, 2011, including comparative figures for the prior year. In April 2008, the CICA released an exposure draft of the coming standards. We have developed a high level IFRS implementation plan, and an assessment of the impact of the accounting standard differences to the financial statements is currently in progress. We expect to make changes to certain processes in 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

### **Disclosure and Internal Controls**

We have established and maintain disclosure controls and procedures in order to provide reasonable assurance that material information relating to IMRIS Inc is made known to us in a timely manner. We have evaluated the effectiveness of our disclosure controls and procedures as at the date of our 2008 annual report and are not aware of any material changes to these controls and procedures; we believe them to be effective in providing such reasonable assurance.

We are also responsible for the design of our internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). We have evaluated the design of our internal controls and procedures over financial reporting as at the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance. As of the date of this report, we are not aware of any change in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

No material changes have been made to the Company's internal controls during the first quarter of 2009.

## **Risks and Uncertainties**

The operating results, business prospects and financial position of the Company are subject to a number of risks and uncertainties. Risks relating to our business include: our long sales cycle, high unit price and limited quarterly installations; our limited operating history and accumulated deficit; our lack of product diversity; our dependence on our suppliers; the development of IMRIScardio and industry focus; our reliance on key personnel; the lack of supporting clinical data; market competition and technological advances; patent protection and trade secrets; intellectual property litigation; our shift from research and development to commercialization; our ability to manage growth; foreign exchange fluctuations; additional financing requirements; and regulatory matters. If any of the events described as risks or uncertainties actually occurs, our business, prospects, financial condition and operating results would likely suffer, possibly materially. We have listed several of the more significant risks and uncertainties which may affect the business below, however for a more comprehensive list of the risks and uncertainties affecting the business, readers are advised to refer to our Annual Information Form which is available at [www.sedar.com](http://www.sedar.com).

### *Long sales cycle, high unit price and limited quarterly installations*

The long sales cycle, as well as the high unit price of the IMRISneuro system, among other factors, may contribute to substantial fluctuations in our quarterly operating results. Because of the high unit price of the IMRISneuro system and the relatively limited number of units installed each quarter, each installation currently represents a significant component of our revenue for a particular quarter. If we lose a single customer order or if customers defer installation of an IMRISneuro system for even a short period of time, recognition of a significant amount of revenue may be lost or deferred to a subsequent period. Given that our operating costs are relatively fixed, our inability to recognize revenue in a particular quarter may adversely affect our profitability in that quarter. We expect that revenues from a limited number of new customers will account for a large percentage of total revenues in future quarters. Our ability to attract new customers will depend on a variety of factors, including the capability, safety, efficacy, ease of use, price, quality and reliability of our products and effective sales, support, training and service. In addition, if we are unable to fulfill our current purchase orders and other commitments on a timely basis or at all, market acceptance of our products could be adversely affected and hospitals may instead purchase our competitors' products. The loss or delay of individual orders or failure to add new customers could have a significant impact on future revenues and operating results.

### *Limited operating history and accumulated deficit*

We have a limited operating history from which investors can evaluate our business and prospects. We have a large accumulated deficit, we expect future losses, and we may not achieve or maintain profitability. We have incurred substantial losses since inception and we may incur additional operating losses in the near term. If the time required to generate significant revenues and achieve profitability is longer than anticipated, we may not be able to continue our operations without additional capital. Our prospects must be considered in light of the risks and uncertainties encountered by an early-stage company in the continuously-evolving surgical imaging market. If we cannot successfully address these risks, our business and financial condition would suffer.

### *Lack of product diversity*

Currently, our only commercially available product is the IMRISneuro system. We expect to generate substantially all of our revenue for the foreseeable future from sales of the IMRISneuro system and multiyear service plans for the IMRISneuro system. If we are unable to sustain or grow sales of the IMRISneuro system, we may not generate sufficient revenue to support our business. Accordingly, we are dependent on our ability to market and sell the IMRISneuro system. Any factor materially and/or adversely affecting our ability to market and sell the IMRISneuro system or pricing and demand for the IMRISneuro system may have a material and adverse effect on our financial condition and results of operations.

### *Development of New Products*

We are planning to leverage the IMRISneuro technology platform to target other major application areas. There is no assurance that we will be able to successfully develop or commercialize the new products, or that demand for these products will meet our expectations.

### *Dependence on suppliers*

The IMRISneuro system is designed around a Siemens-supplied MRI scanner, with its associated software, diagnostic coils and controls and represents a key component. We currently depend on Siemens to supply the MRI scanner at the core of our IMRISneuro system under an OEM re-sale agreement. Our agreement with Siemens was entered into as of November 2005 for a five-year term with automatic renewal annually thereafter, subject to nine months advance written notice of termination by either party. The agreement may be terminated earlier in the event of insolvency or equivalent proceedings against either party or in the event of a change of control or similar sale transaction affecting IMRIS where the buyer or controlling shareholder is a direct competitor to Siemens. If for any reason we could not obtain MRI scanners from Siemens, there is no certainty that we could find another vendor willing to supply an MRI scanner for IMRISneuro and a change in the MRI scanner would require a major redesign of the IMRISneuro system, which could take a year or more to implement. We are also dependant on Siemens to provide ongoing support and maintenance services to our customers under contract to IMRIS. If Siemens' services became unavailable, any resulting service issues could disrupt our customer relationships and cause damage to our reputation.

We purchase certain other components of our system from outside vendors, including radio-frequency shielding systems, certain hardware components for our surgical information management system and operating room booms and lights. For the majority of our system components, we do not have long-term supply contracts with the suppliers; however, we attempt to establish dual sourcing for most of these other components of our system and we believe that we would be able to establish alternative sources for these components, subject to any regulatory qualifications, as may be required. It is possible that a disruption of the supply of these components could result in increased costs and delays in deliveries of IMRISneuro systems, which could adversely affect our reputation and results of operations. Additionally, any transition to alternate manufacturers or suppliers would likely result in operational problems and increased expenses and could delay the shipment of, or limit our ability to provide our products.

### *Competition and technological advances*

The surgical imaging industry is subject to intense and increasing competition and rapidly evolving technologies. Many government, academic and business entities are investing substantial resources in research and development of treatments and new products that may render surgical imaging obsolete, including radiation treatment, new drug treatments and gene therapy. Successful developments that result in new approaches for treatments could reduce the attractiveness of our products or render them obsolete. MRI competes with other surgical imaging technologies such as CT, fluoroscopy and ultrasound for market share in the overall surgical imaging market.

The market for neurosurgical MR imaging is highly competitive, with a number of companies providing competing surgical MRI systems. Many of these competitors are large medical system suppliers which have considerably greater resources at their disposal to advance the development of their MRI systems. These competitors or other companies may at any time develop new or improved surgical imaging solutions. Alternatively, these competitors may choose to increase their respective market share by changing their pricing model or by lowering the price of their surgical imaging solutions or ancillary supplies. If we are unable to address these competitor tactics by either continuing to enhance and improve our current product(s) or we are unable to maintain or increase our selling price in the face of competition, there can be no assurance that the Company will be able to maintain its desired market share or achieve its financial objectives.

### **Additional Information**

Additional information about relating to IMRIS Inc. can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).