



CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(Unaudited)

July 30, 2009

(Date Issued)



IMRIS INC.
Consolidated Balance Sheets
(In CDN dollars)
(June 30, 2009 Unaudited)

| | June 30, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | \$ 9,133,089 | \$ 18,597,333 |
| Accounts receivable (note 5) | 12,057,588 | 1,208,380 |
| Unbilled receivables | 1,096,718 | 3,051,782 |
| Inventory (note 6) | 3,072,227 | 2,186,283 |
| Prepaid expenses | 1,856,028 | 1,133,570 |
| | <u>27,215,650</u> | <u>26,177,348</u> |
| Property, plant, and equipment, net | 7,964,525 | 6,884,653 |
| Goodwill | 6,462,808 | 6,462,808 |
| Patents, net | 301,619 | 323,961 |
| | <u>6,764,427</u> | <u>6,786,769</u> |
| Total assets | \$ 41,944,602 | \$ 39,848,770 |
| Liabilities and Shareholders' equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 8,379,992 | \$ 6,227,986 |
| Customer deposits | 19,138,941 | 12,647,883 |
| Current portion of capital lease obligation | 2,922 | 8,624 |
| | <u>27,521,855</u> | <u>18,884,493</u> |
| Shareholders' equity | | |
| Share capital (note 7b) | 66,016,175 | 65,992,820 |
| Contributed surplus (note 7d) | 1,590,102 | 1,228,193 |
| Deficit | (53,183,530) | (46,256,736) |
| | <u>14,422,747</u> | <u>20,964,277</u> |
| Total liabilities and shareholders' equity | \$ 41,944,602 | \$ 39,848,770 |

See accompanying notes

IMRIS INC.
Consolidated Statement of Loss and Comprehensive Loss and Deficit
(In CDN dollars)
(Unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| Sales | \$ 9,827,863 | \$ 8,191,072 | \$ 14,632,142 | \$ 12,349,208 |
| Cost of sales | 5,398,467 | 6,733,398 | 8,354,935 | 10,489,511 |
| Gross profit | 4,429,396 | 1,457,674 | 6,277,207 | 1,859,697 |
| Operating expenses | | | | |
| Administrative | 1,774,512 | 1,613,014 | 3,248,856 | 3,354,649 |
| Sales and marketing | 1,963,812 | 1,638,278 | 3,667,934 | 2,960,823 |
| Customer support and operations | 1,216,876 | 1,041,746 | 2,282,228 | 1,953,356 |
| Research and development | 1,282,928 | 1,110,014 | 2,360,297 | 2,013,858 |
| Amortization | 527,106 | 269,613 | 1,025,843 | 520,311 |
| Total operating expenses | 6,765,234 | 5,672,665 | 12,585,158 | 10,802,997 |
| Operating loss before the following | (2,335,838) | (4,214,991) | (6,307,951) | (8,943,300) |
| Other income | | | | |
| Foreign exchange (loss) gain | (960,663) | (45,218) | (623,867) | 7,274 |
| Interest income | 754 | 196,939 | 5,024 | 468,244 |
| Total other income | (959,909) | 151,721 | (618,843) | 475,518 |
| Loss before taxes | (3,295,747) | (4,063,270) | (6,926,794) | (8,467,782) |
| Income taxes | - | - | - | - |
| Loss and comprehensive loss for the period | \$ (3,295,747) | \$ (4,063,270) | \$ (6,926,794) | \$ (8,467,782) |
| Deficit, beginning of period | (49,887,783) | (33,698,356) | (46,256,736) | (29,293,844) |
| Deficit, end of period | (53,183,530) | (37,761,626) | (53,183,530) | (37,761,626) |
| Weighted average number of common shares outstanding | 27,357,294 | 27,351,013 | 27,354,890 | 27,350,963 |
| Basic and diluted loss per share | \$ (0.12) | \$ (0.15) | \$ (0.25) | \$ (0.31) |

See accompanying notes

IMRIS INC.
Consolidated Cash Flows
(In CDN dollars)
(Unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| OPERATING ACTIVITIES | | | | |
| Loss for the period: | (3,295,747) | (4,063,270) | (6,926,794) | (8,467,782) |
| Items not affecting cash | | | | |
| Amortization | 527,106 | 269,613 | 1,025,843 | 520,311 |
| Stock based compensation | 185,262 | 168,054 | 364,968 | 304,524 |
| Loss on disposal of assets | - | - | 1,841 | - |
| | <u>(2,583,379)</u> | <u>(3,625,603)</u> | <u>(5,534,142)</u> | <u>(7,642,947)</u> |
| Changes in non-cash working capital items | | | | |
| Accounts receivable | (4,960,972) | (4,004,693) | (10,849,208) | (2,715,954) |
| Unbilled receivables | (1,096,718) | 33,206 | 1,955,064 | (198,567) |
| Investment tax credits receivable | - | 260,784 | - | 260,784 |
| Inventory | (198,462) | 117,998 | (885,944) | 504,130 |
| Prepaid expenses | 153,348 | 17,637 | (722,458) | (649,099) |
| Accounts payable and accrued liabilities | 2,048,859 | 4,912,171 | 2,152,006 | 4,672,017 |
| Customer deposits | 4,114,505 | 222,517 | 6,491,058 | 1,529,361 |
| | <u>60,560</u> | <u>1,559,620</u> | <u>(1,859,482)</u> | <u>3,402,672</u> |
| | <u>(2,522,819)</u> | <u>(2,065,983)</u> | <u>(7,393,624)</u> | <u>(4,240,275)</u> |
| FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of share capital | 20,296 | - | 20,296 | 2,910 |
| Repayment of long term debt | - | (81,910) | - | (123,492) |
| Repayment of obligation under capital lease | (2,874) | (2,692) | (5,702) | (5,340) |
| | <u>17,422</u> | <u>(84,602)</u> | <u>14,594</u> | <u>(125,922)</u> |
| INVESTING ACTIVITIES | | | | |
| Proceeds from sale of assets | - | - | 1,370 | - |
| Acquisition of property, plant and equipment | (1,061,406) | (4,618,464) | (2,086,584) | (4,802,615) |
| | <u>(1,061,406)</u> | <u>(4,618,464)</u> | <u>(2,085,214)</u> | <u>(4,802,615)</u> |
| Decrease in cash and cash equivalents | (3,566,803) | (6,769,049) | (9,464,244) | (9,168,812) |
| Cash and cash equivalents, beginning of period | 12,699,892 | 28,404,226 | 18,597,333 | 30,803,989 |
| Cash and cash equivalents, end of period | <u>9,133,089</u> | <u>21,635,177</u> | <u>9,133,089</u> | <u>21,635,177</u> |

Supplemental disclosure of cash flow information

Cash paid during the period for:

| | | | | | | | | |
|--------------|----|-----|----|-------|----|-------|----|-------|
| Interest | \$ | 787 | \$ | 2,101 | \$ | 3,616 | \$ | 5,363 |
| Income taxes | | - | | - | | - | | - |

1. DESCRIPTION OF BUSINESS

IMRIS is a supplier of surgical imaging solutions designed to provide surgeons with near real time images during a surgical procedure to assist them in making decisions that ultimately result in improved patient outcomes. The Company's flagship product IMRISneuro is an integrated operating room that uses IMRIS' patented technology to move a magnetic resonance imaging scanner into an operating room from an adjacent suite and position it directly over the patient for imaging during the surgical procedure, without the need to move the patient. The Company's initial products are focused on the neurosurgical market, however the Company has recently the development of products for MR guided interventional cardiac and neurovascular procedures.

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applicable to interim financial statements. The statements follow the same accounting policies and methods of their application as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2008 except as described in note 3.

In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the unaudited interim consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The unaudited consolidated interim financial statements do not include all the disclosures required according to GAAP for annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the year ended December 31, 2008.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the following new accounting standard, as issued by the Canadian Institute of Chartered Accountants: Section 3064 Goodwill and Intangible Assets. This change in accounting policy was applied in accordance with the transitional provisions contained in this section.

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. It revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no material impact on our financial position or results of operations.

4. CASH AND CASH EQUIVALENTS

| | June 30 <u>2009</u> | December 31 <u>2008</u> |
|------------------------|------------------------|----------------------------|
| Cash | \$ 4,159,457 | \$ 7,167,897 |
| Short term investments | 4,973,632 | 11,429,436 |
| | <u>\$ 9,133,089</u> | <u>\$ 18,597,333</u> |

Short term investments consist of investments in short term banker's acceptances and short term deposits.

Included in short-term investments are term deposits totalling \$318,186 (2008 - \$270,396) that have been pledged as security to our bank for letters of credit required for bid bonds on certain system installations.

5. ACCOUNTS RECEIVABLE

| | June 30 <u>2009</u> | December 31 <u>2008</u> |
|----------------------------|------------------------|----------------------------|
| Accounts receivable, trade | \$ 12,014,754 | \$ 1,094,940 |
| Commodity taxes receivable | 40,444 | 91,784 |
| Interest receivable | 2,390 | 21,656 |
| | <u>\$ 12,057,588</u> | <u>\$ 1,208,380</u> |

The carrying value of the Company's trade accounts receivable is as noted above. The company has not provided an allowance for doubtful accounts.

As at June 30, 2009, trade accounts receivable of \$1,590,196 were past due but not impaired. The aging of these trade accounts receivable are as follows:

| | <u>Current</u> | 1 to 30 days <u>past due</u> | 31 to 60 days <u>past due</u> | 61 to 90 days <u>past due</u> |
|----------------------------|----------------|---------------------------------|----------------------------------|----------------------------------|
| Accounts receivable, trade | \$ 10,424,558 | \$ 818,978 | \$ 48,255 | \$ 722,963 |

There are no impairments or amounts past due other than those relating to trade accounts receivable.

6. INVENTORY

| | June 30 <u>2009</u> | December 31 <u>2008</u> |
|------------------|------------------------|----------------------------|
| Materials | \$ 2,357,484 | \$ 2,146,319 |
| Work in progress | 714,743 | 39,964 |
| | <u>\$ 3,072,227</u> | <u>\$ 2,186,283</u> |

During the three months June 30, 2009, the Company recorded inventory write-downs for slow moving and obsolete inventory of \$5,000 (Year-to-date-\$35,000).

7. CAPITAL STOCK

a) Authorized

The Company's share capital consists of an unlimited number of common shares and an unlimited number of preferred shares.

b) Issued and outstanding

The issued share capital of the Company is as follows:

| Common Shares | Number of Shares | Stated Capital |
|---|-------------------------|-----------------------|
| Balance as at March 31, 2009 | 27,352,513 | \$ 65,992,820 |
| Issued on exercise of options during the period | 11,687 | 23,355 |
| Balance as at June 30, 2009 | <u>27,364,200</u> | <u>\$ 66,016,175</u> |

There are no preferred shares outstanding.

7. CAPITAL STOCK (continued)

c) Stock-based compensation plan

The outstanding options and the activity relating to these options are as follows:

| | Six months ended June 30, 2009 | |
|-----------------------------------|-----------------------------------|------------------------------------|
| | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 3,697,226 | \$2.90 |
| Granted | 142,859 | 2.42 |
| Exercised | (11,687) | 1.74 |
| Forfeited | (19,188) | 1.96 |
| <u>Outstanding, end of period</u> | <u>3,809,210</u> | <u>\$2.89</u> |

The company recorded an expense of \$185,262 related to stock options during the second quarter of 2009 (2008 - \$168,054) and \$364,968 for the six months ending June 30, 2009 (2008 - \$304,524) with a corresponding credit to contributed surplus. This estimate of the fair value on the date of grant used the Black-Scholes option pricing model with the following assumptions:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Risk-free interest rate | 1.95% | 3.39% | 2.15% | 3.00% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected life of the options | 4.2 years | 4.2 years | 4.2 years | 4.2 years |
| Expected volatility of the underlying stock | 65.06% | 49.28% | 47.70% | 46.99% |

The estimated fair value of the options is expensed on a straight-line basis over the option's vesting period.

The weighted average fair value of stock options granted during the three months and six months ended June 30, 2009, under the Black-Scholes option pricing model, and using the above assumptions was \$1.80 and \$1.23 (June 30, 2008 - \$1.75 and \$1.97)

d) Contributed Surplus

| | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|-----------------------------------|-----------------------------------|
| Balance, beginning of period | \$ 1,228,193 | \$ 576,065 |
| Stock based compensation expense for the period | 364,968 | 304,524 |
| Amount credited to share capital related to options exercised during the period | (3,059) | (420) |
| <u>Balance, end of period</u> | <u>\$ 1,590,102</u> | <u>\$ 880,169</u> |

8. SEGMENTED INFORMATION

The Company operates as one business segment that develops, assembles and installs surgical imaging systems used in medical applications as well as providing ancillary products and services and extended maintenance services.

Revenue attributable to geographic locations, based on the location of the customer, is as follows:

| | Three months ended | | Six months ended | |
|---------------|---------------------|---------------------|----------------------|----------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| North America | \$ 9,795,463 | \$ 5,473,446 | \$ 14,465,074 | \$ 7,687,581 |
| Asia Pacific | 32,400 | 2,717,626 | 167,068 | 4,661,627 |
| | <u>\$ 9,827,863</u> | <u>\$ 8,191,072</u> | <u>\$ 14,632,142</u> | <u>\$ 12,349,208</u> |

During the three months ended June 30, 2009, revenues from two individual customers totalled \$8,041,464 which represents 82% of the total revenue. For the six months ended June 30, 2008, revenues from three individual customers totalled \$11,794,356 which represents 81% of the total revenue. The revenues from each of those customers, individually accounted for more than 10% of the total revenue for the three and six months ending June 30, 2009.

Substantially all of the capital assets and the entire goodwill balance are attributable to the Company's operations located in Canada.

9. RELATED PARTY TRANSACTIONS

The Company leases air travel time from a company which is wholly owned by a significant shareholder of IMRIS Inc. The amount charged to travel expenses during the three months ended June 30, 2009 totalled \$154,910 (June 30, 2008 – \$65,246) and \$308,210 for the six months ended June 30, 2009 (2008 - \$213,446). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at June 30, 2009 was \$143,990 (December 31, 2008 - \$41,580)

The Company contracted consulting services from a company which is controlled by a director of IMRIS Inc. in prior years. No consulting services were provided in the current quarter (2008 – \$16,000) or for the six months ended June 30, 2009 (2008 - \$64,000). The transactions were priced using arms length pricing and were recorded at the exchange amount.

10. DEFINED CONTRIBUTION EMPLOYEE PENSION PLAN

The Company contributes to a defined contribution Employee Pension Plan for all its employees. Contributions to this Plan are expensed as incurred. The Company makes a matching contribution equal to 50% of the employee's contribution, to a maximum of 3% of the employee's annual remuneration (subject to regulatory maximums). These Employer contributions vest immediately with the employee. The expense for the defined contribution plan during the three months ended June 30, 2009 totalled \$57,335 (June 30, 2008 - \$40,279) and \$116,014 for the six months ended June 30, 2009 (2008 - \$53,441).

11. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk; fair value interest rate risk; cash flow interest rate risk); credit risk and liquidity risk. The overall risk management efforts focus on the unpredictability of financial markets and seek to minimize potential adverse effects on financial performance. The finance department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

a) Market Risk

i. Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from future sales and purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies. The Company's main objective in managing its foreign exchange risk is to preserve gross margins and reduce variations in performance. While the Company sells in most foreign markets in US dollars, the Company also sources a significant portion of the components it delivers in US dollars. In addition, the Company incurs nearly all of its sales expenses in US dollars. As a result of this natural hedge, the Company's foreign exchange risk is significantly reduced. The Company does not currently enter into any foreign exchange contracts, but may consider doing so in the future.

The balances in foreign currencies at June 30, 2009 are as follows:

| | <u>US Dollars</u> |
|--|--------------------|
| Cash and cash equivalents | \$ 6,778,992 |
| Accounts receivables | 9,097,471 |
| Unbilled receivables | 818,212 |
| Accounts payable and accrued liabilities | <u>(3,318,781)</u> |
| | \$ 13,375,894 |

Based on the above net exposures as at June 30, 2009, and assuming that all other variables remain constant a 10% depreciation of the Canadian dollar or a 10% appreciation of the Canadian dollar against the various currencies would result in increases/(decreases) in net earnings as follows:

| | <u>US Dollars</u> |
|---------------------------------|-------------------|
| Canadian dollar depreciates 10% | \$ 1,555,616 |
| Canadian dollar appreciates 10% | (1,555,616) |

ii. Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents includes short-term highly liquid investments that earn interest at market rates. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's short-term investments are the only financial assets bearing fixed interest rates while the capital lease obligation is the only financial liability bearing a fixed interest rate. The Company manages its interest rate risk by minimizing financing costs on its borrowings and maximizing the interest incomes earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's investment policy limits the investing of excess funds to Bankers Acceptances, Canadian Chartered bank term deposits, and short term highly liquid money market mutual funds sponsored by Canadian Chartered banks.

11. FINANCIAL RISK MANAGEMENT (continued)

b) *Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk of the company at period end is the carrying value of its financial assets. The Company manages its credit risk on cash and cash equivalents by dealing solely with reputable banks and financial institutions. The Company's North American customers are large credit worthy medical hospitals and thus there is very little exposure to credit risk. When selling internationally, the Company uses irrevocable letters of credit to reduce its exposure to credit risks. The Company reviews the collectability of its accounts receivable and would record an allowance for doubtful accounts receivable if accounts were determined to be uncollectible. The loss would be recognized in the income statement within 'Administrative expense'. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable is uncollectible. For the three months ended June 30, 2009, revenues from two individual customers totalled \$8,041,464 which represents 82% of the total revenue. (June 30, 2008; three customers represented 87% of the total revenue). For the six months ended June 30, 2009, revenues from three individual customers totalled \$11,794,356 which represents 81% of the total revenue. (June 30, 2008; four customers represented 83% of the total revenue). The Company's June 30, 2009 receivables include balances owing from four individual customers who respectively account for 27%, 24%, 11% and 10% of the combined accounts receivable and unbilled receivables balances.

c) *Liquidity Risk*

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at June 30, 2009:

| | Less than 3 <u>months</u> | 3 to 6 <u>months</u> | 6 to 9 <u>months</u> | 9 months <u>to 1 year</u> | Over 1 <u>year</u> |
|--|------------------------------|-------------------------|-------------------------|------------------------------|-----------------------|
| Accounts payable and accrued liabilities | \$6,788,731 | \$518,692 | \$300,470 | \$141,604 | \$630,495 |

12. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, unbilled receivables and accounts payable and accrued liabilities are a reasonable estimate of their fair values because of the short-term maturity of these instruments. The effective rate of return on short-term investments is approximately 0.33% (December 2008 – 1.44%).

13. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, the Company includes shareholders' equity, debt and customer deposits in the definition of capital.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets and adjust the amount of cash and short-term investment balances.

14. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to the current period's presentation.