



CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

November 2, 2009

(Date Issued)



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

	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 6,099,940	\$ 18,597,333
Accounts receivable (note 5)	6,341,301	1,208,380
Unbilled receivables	4,358,035	3,051,782
Inventory (note 6)	2,625,568	2,186,283
Prepaid expenses	2,179,462	1,133,570
	<u>21,604,306</u>	<u>26,177,348</u>
Property, plant, and equipment, net	8,006,510	6,884,653
Goodwill	6,462,808	6,462,808
Patents, net	290,448	323,961
	<u>6,753,256</u>	<u>6,786,769</u>
Total assets	\$ 36,364,072	\$ 39,848,770
Liabilities and Shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,084,469	\$ 6,227,986
Customer deposits	19,322,919	12,647,883
Current portion of capital lease obligation	-	8,624
	<u>24,407,388</u>	<u>18,884,493</u>
Shareholders' equity		
Share capital (note 7b)	66,030,824	65,992,820
Contributed surplus (note 7d)	1,765,496	1,228,193
Deficit	(55,839,636)	(46,256,736)
	<u>11,956,684</u>	<u>20,964,277</u>
Total liabilities and shareholders' equity	\$ 36,364,072	\$ 39,848,770

See accompanying notes

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

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Sales	\$ 9,863,709	\$ 4,869,433	\$ 24,495,851	\$ 17,218,641
Cost of sales	5,401,780	3,541,973	13,756,715	14,031,484
Gross profit	4,461,929	1,327,460	10,739,136	3,187,157
Operating expenses				
Administrative	1,642,702	1,733,936	4,891,558	5,088,585
Sales and marketing	1,601,483	1,747,905	5,269,417	4,708,728
Customer support and operations	1,161,209	1,021,536	3,443,437	2,974,892
Research and development	1,133,412	1,419,993	3,493,709	3,433,851
Amortization	539,392	432,931	1,565,235	953,242
Total operating expenses	6,078,198	6,356,301	18,663,356	17,159,298
Operating loss before the following	(1,616,269)	(5,028,841)	(7,924,220)	(13,972,141)
Other income				
Foreign exchange (loss) gain	(1,033,741)	230,763	(1,657,608)	238,037
Interest (expense) income	(6,096)	118,060	(1,072)	586,304
Total other income	(1,039,837)	348,823	(1,658,680)	824,341
Loss before taxes	(2,656,106)	(4,680,018)	(9,582,900)	(13,147,800)
Income taxes	-	-	-	-
Loss and comprehensive loss for the period	(2,656,106)	(4,680,018)	(9,582,900)	(13,147,800)
Deficit, beginning of period	(53,183,530)	(37,761,626)	(46,256,736)	(29,293,844)
Deficit, end of period	\$ (55,839,636)	\$ (42,441,644)	\$ (55,839,636)	\$ (42,441,644)
Weighted average number of common shares outstanding	27,366,720	27,351,323	27,358,858	27,351,073
Basic and diluted loss per share	\$ (0.10)	\$ (0.17)	\$ (0.35)	\$ (0.48)

See accompanying notes

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

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
OPERATING ACTIVITIES				
Loss for the period:	\$ (2,656,106)	\$ (4,680,018)	\$ (9,582,900)	\$ (13,147,800)
Items not affecting cash				
Amortization	539,392	432,931	1,565,235	953,242
Stock based compensation	178,074	179,482	543,043	484,006
Loss on disposal of assets	-	-	1,841	-
	(1,938,640)	(4,067,605)	(7,472,781)	(11,710,552)
Changes in non-cash working capital items				
Accounts receivable	5,716,287	693,171	(5,132,921)	(2,022,783)
Unbilled receivables	(3,261,317)	96,396	(1,306,253)	(102,171)
Investment tax credits receivable	-	-	-	260,784
Inventory	446,659	(498,962)	(439,285)	5,168
Prepaid expenses	(323,434)	222,303	(1,045,892)	(426,796)
Accounts payable and accrued liabilities	(3,295,523)	(2,974,373)	(1,143,517)	1,697,644
Customer deposits	183,978	3,360,262	6,675,036	4,889,623
	(533,350)	898,797	(2,392,832)	4,301,469
	(2,471,990)	(3,168,808)	(9,865,613)	(7,409,083)
FINANCING ACTIVITIES				
Proceeds from issuance of share capital	11,968	3,375	32,263	6,285
Repayment of long term debt	-	(48,695)	-	(172,187)
Repayment of obligation under capital lease	(2,922)	(2,736)	(8,624)	(8,076)
	9,046	(48,056)	23,639	(173,978)
INVESTING ACTIVITIES				
Proceeds from sale of assets	-	-	1,370	-
Acquisition of property, plant and equipment	(570,205)	(281,052)	(2,656,789)	(5,083,667)
	(570,205)	(281,052)	(2,655,419)	(5,083,667)
Decrease in cash and cash equivalents	(3,033,149)	(3,497,916)	(12,497,393)	(12,666,728)
Cash and cash equivalents, beginning of period	9,133,089	21,635,177	18,597,333	30,803,989
Cash and cash equivalents, end of period	\$ 6,099,940	\$ 18,137,261	\$ 6,099,940	\$ 18,137,261

Supplemental disclosure of cash flow information

Cash paid during the period for:

Interest	\$ 581	\$ 1,882	\$ 4,197	\$ 7,245
Income taxes	-	-	-	-

1. DESCRIPTION OF BUSINESS

IMRIS provides fully integrated imaging solutions that deliver timely information to clinicians during surgical or interventional procedures. IMRIS systems incorporate multiple imaging modalities including magnetic resonance imaging ("MRI") and fluoroscopy into fully integrated imaging suites. The systems use a variety of patented technologies, including the capability of moving an MRI scanner to the patient, rather than having to move the patient to the scanner, while the surgery or interventional procedure is in progress. The Company's products include IMRISneuro for the neurovascular market, and IMRIScardio and IMRISnv which are targeted at the cardiovascular and neurovascular markets respectively.

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

	September 30 <u>2009</u>	December 31 <u>2008</u>
Cash	\$ 5,798,672	\$ 7,167,897
Short term investments	301,268	11,429,436
	<u>\$ 6,099,940</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 \$297,696 (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

	September 30 <u>2009</u>	December 31 <u>2008</u>
Accounts receivable, trade	\$ 6,259,114	\$ 1,094,940
Commodity taxes receivable	81,479	91,784
Interest receivable	708	21,656
	<u>\$ 6,341,301</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 September 30, 2009, trade accounts receivable of \$3,313,707 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	\$ 2,945,407	\$ 2,976,546	\$ 44,525	\$ 292,636

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

6. INVENTORY

	September 30 <u>2009</u>	December 31 <u>2008</u>
Materials	\$ 2,281,414	\$ 2,146,319
Work in progress	344,154	39,964
	<u>\$ 2,625,568</u>	<u>\$ 2,186,283</u>

During the three months September 30, 2009, the Company recorded inventory write-downs for slow moving and obsolete inventory of \$40,000 (Year-to-date-\$75,000).

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 December 31, 2008	27,352,513	\$ 65,992,820
Issued on exercise of options during the period	19,114	38,004
<u>Balance as at September 30, 2009</u>	<u>27,371,627</u>	<u>\$ 66,030,824</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:

	<u>Nine months ended September 30, 2009</u>	
	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,697,226	\$2.90
Granted	156,734	2.69
Exercised	(19,114)	1.69
Forfeited	(53,053)	3.00
<u>Outstanding, end of period</u>	<u>3,781,793</u>	<u>\$2.89</u>

The company recorded an expense of \$178,074 related to stock options during the third quarter of 2009 (2008 - \$179,482) and \$543,043 for the nine months ending September 30, 2009 (2008 - \$484,006) 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:

	<u>Three months ended September 30, 2009</u>		<u>Nine months ended September 30, 2009</u>	
	2009	2008	2009	2008
Risk-free interest rate	2.75%	3.12%	1.72%	3.03%
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	64.79%	56.95%	64.40%	49.80%

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 nine months ended September 30, 2009, under the Black-Scholes option pricing model, and using the above assumptions was \$2.83 and \$1.37 (September 30, 2008 - \$2.34 and \$2.07)

d) Contributed Surplus

	<u>Nine months ended September 30, 2009</u>	<u>Year ended December 31, 2008</u>
Balance, beginning of year	\$ 1,228,193	\$ 576,065
Stock based compensation expense for the period	543,043	653,043
Amount credited to share capital related to options exercised during the period	(5,740)	(915)
<u>Balance, end of period</u>	<u>\$ 1,765,496</u>	<u>\$ 1,228,193</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		Nine months ended	
	<u>September 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>	<u>September 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
North America	\$ 9,728,121	\$ 2,503,178	\$ 24,193,195	\$ 10,190,759
Asia Pacific	135,588	2,366,255	302,656	7,027,882
	<u>\$ 9,863,709</u>	<u>\$ 4,869,433</u>	<u>\$ 24,495,851</u>	<u>\$ 17,218,641</u>

During the three months ended September 30, 2009, revenues from two individual customers totalled \$5,991,595 which represents 61% of the total revenue. For the nine months ended September 30, 2009, revenues from four individual customers totalled \$18,619,034 which represents 76% 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 nine months ending September 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 September 30, 2009 totalled \$131,590 (September 30, 2008 - \$106,386) and \$439,800 for the nine months ended September 30, 2009 (2008 - \$319,832). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at September 30, 2009 was \$150,000 (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 - \$32,000) or for the nine months ended September 30, 2009 (2008 - \$96,000). 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 September 30, 2009 totalled \$56,096 (September 30, 2008 - \$53,482) and \$172,110 for the nine months ended September 30, 2009 (2008 - \$106,923).

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 September 30, 2009 are as follows:

	<u>US Dollars</u>
Cash and cash equivalents	\$ 3,434,397
Accounts receivables	5,252,707
Unbilled receivables	3,933,081
Accounts payable and accrued liabilities	(868,779)
	<u>\$ 11,751,406</u>

Based on the above net exposures as at September 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%	\$ 1,258,223
Canadian dollar appreciates 10%	(1,258,223)

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 September 30, 2009, revenues from two individual customers totalled \$5,991,595 which represents 61% of the total revenue. (September 30, 2008; three customers represented 85% of the total revenue). For the nine months ended September 30, 2009, revenues from four individual customers totalled \$18,619,034 which represents 76% of the total revenue. (September 30, 2008; four customers represented 84% of the total revenue). The Company's September 30, 2009 receivables include balances owing from six individual customers who respectively account for 24%, 15%, 12%, 11%, 10% 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 September 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	\$3,540,184	\$454,200	\$234,114	\$93,646	\$612,325

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 0.58% (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.

15. SUBSEQUENT EVENT

The Company closed on November 2, 2009 a bought deal financing with a syndicate of underwriters to issue 3,215,000 common shares of IMRIS at \$5.60 per common share for gross proceeds of approximately \$18 million. In addition, IMRIS granted the underwriters an option, exercisable in whole or in part for a period of up to 30 days following the offering closing date, to increase the offering by up to 482,250 common shares at a price of \$5.60 per common share. This option was exercised on November 2, 2009, increasing the aggregate size of the offering to approximately \$20.7 million.

Proceeds of the offering will be used for working capital and general corporate purposes.