



## **CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

**(Unaudited)**

**February 8, 2010**

**(Date Issued)**



IMRIS INC.  
Consolidated Balance Sheets  
(In CDN dollars)  
(December 31, 2009 Unaudited)

	December 31, 2009	December 31, 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 5)	\$ 26,273,633	\$ 18,597,333
Accounts receivable (note 6)	13,716,600	1,208,380
Unbilled receivables	5,201,928	3,051,782
Inventory (note 7)	3,100,736	2,186,283
Prepaid expenses	2,167,921	1,133,570
	<u>50,460,818</u>	<u>26,177,348</u>
Property, plant, and equipment, net	8,382,171	6,884,653
Goodwill	6,462,808	6,462,808
Patents, net	278,036	323,961
	<u>6,740,844</u>	<u>6,786,769</u>
<b>Total assets</b>	<b>\$ 65,583,833</b>	<b>\$ 39,848,770</b>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,672,526	\$ 6,227,986
Customer deposits	21,050,029	12,647,883
Current portion of capital lease obligation	-	8,624
	<u>33,722,555</u>	<u>18,884,493</u>
Shareholders' equity		
Share capital (note 8b)	85,337,047	65,992,820
Contributed surplus (note 8d)	1,946,100	1,228,193
Deficit	(55,421,869)	(46,256,736)
	<u>31,861,278</u>	<u>20,964,277</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 65,583,833</b>	<b>\$ 39,848,770</b>

See accompanying notes

## IMRIS INC.

## Consolidated Statements of Income and Comprehensive Income and Deficit

(In CDN dollars)

(Unaudited)

	Three months ended		Twelve months ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Sales	\$ 19,921,667	\$ 5,733,845	\$ 44,417,518	\$ 22,952,486
Cost of sales	10,991,504	4,312,698	24,748,219	18,344,182
Gross profit	8,930,163	1,421,147	19,669,299	4,608,304
Operating expenses				
Administrative	1,814,853	1,718,663	6,706,411	6,807,248
Sales and marketing	2,770,288	1,741,730	8,039,705	6,450,458
Customer support and operations	1,507,042	955,378	4,950,479	3,930,270
Research and development	1,430,109	1,271,654	4,923,818	4,705,505
Amortization	596,724	503,793	2,161,959	1,457,035
Total operating expenses	8,119,016	6,191,218	26,782,372	23,350,516
Operating income (loss) before the following	811,147	(4,770,071)	(7,113,073)	(18,742,212)
Other income (expense)				
Foreign exchange (loss) gain	(367,747)	880,516	(2,025,355)	1,118,553
Interest (expense) income	(25,633)	74,463	(26,705)	660,767
Total other income (expense)	(393,380)	954,979	(2,052,060)	1,779,320
Income (loss) before taxes	417,767	(3,815,092)	(9,165,133)	(16,962,892)
Income taxes	-	-	-	-
Income (loss) and comprehensive income (loss) for the period	417,767	(3,815,092)	(9,165,133)	(16,962,892)
Deficit, beginning of period	(55,839,636)	(42,441,644)	(46,256,736)	(29,293,844)
Deficit, end of period	\$ (55,421,869)	\$ (46,256,736)	\$ (55,421,869)	\$ (46,256,736)
Earnings (loss) per share (note 9)				
Basic	\$ 0.02	\$ (0.14)	\$ (0.33)	\$ (0.62)
Diluted	\$ 0.01	\$ (0.14)	\$ (0.33)	\$ (0.62)

See accompanying notes

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

	Three months ended		Twelve months ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<b>OPERATING ACTIVITIES</b>				
Income (loss) for the period:	\$ 417,767	\$ (3,815,092)	\$ (9,165,133)	\$ (16,962,892)
Items not affecting cash				
Amortization	596,724	503,793	2,161,959	1,457,035
Stock based compensation	182,999	169,038	726,042	653,044
Loss on disposal of assets	-	-	1,841	-
	<u>1,197,490</u>	<u>(3,142,261)</u>	<u>(6,275,291)</u>	<u>(14,852,813)</u>
Changes in non-cash working capital items				
Accounts receivable	(7,375,299)	4,927,656	(12,508,220)	2,904,873
Unbilled receivables	(843,893)	(2,201,216)	(2,150,146)	(2,303,387)
Investment tax credits receivable	-	-	-	260,784
Inventory	(475,168)	455,650	(914,453)	460,818
Prepaid expenses	11,541	(227,121)	(1,034,351)	(653,917)
Accounts payable and accrued liabilities	7,588,057	515,861	6,444,540	2,213,505
Customer deposits	1,727,110	622,426	8,402,146	5,512,049
	<u>632,348</u>	<u>4,093,256</u>	<u>(1,760,484)</u>	<u>8,394,725</u>
	<u>1,829,838</u>	<u>950,995</u>	<u>(8,035,775)</u>	<u>(6,458,088)</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of share capital (net)	19,303,828	-	19,336,091	6,285
Repayment of long term debt	-	(39,406)	-	(211,593)
Repayment of obligation under capital lease	-	(2,782)	(8,624)	(10,858)
	<u>19,303,828</u>	<u>(42,188)</u>	<u>19,327,467</u>	<u>(216,166)</u>
<b>INVESTING ACTIVITIES</b>				
Proceeds from sale of assets	-	-	1,370	-
Acquisition of property, plant and equipment	(959,973)	(448,735)	(3,616,762)	(5,532,402)
	<u>(959,973)</u>	<u>(448,735)</u>	<u>(3,615,392)</u>	<u>(5,532,402)</u>
Increase (decrease) in cash and cash equivalents	20,173,693	460,072	7,676,300	(12,206,656)
Cash and cash equivalents, beginning of period	6,099,940	18,137,261	18,597,333	30,803,989
Cash and cash equivalents, end of period	<u>\$ 26,273,633</u>	<u>\$ 18,597,333</u>	<u>\$ 26,273,633</u>	<u>\$ 18,597,333</u>

*Supplemental disclosure of cash flow information*

Cash paid during the period for:

Interest	\$ 32,560	\$ 558	\$ 36,758	\$ 7,244
Income taxes	-	-	-	-

See accompanying notes

## 1. DESCRIPTION OF BUSINESS

IMRIS provides image guided therapy 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 neurosurgical market, IMRIScardio for the interventional cardiovascular market and IMRISnv for the neurovascular market.

## 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

### *Goodwill and Intangible Assets*

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.

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 had no material impact on our financial position or results of operations.

### *Financial Instruments – Fair Value and Liquidity Risk Disclosure*

The CICA issued amendments to CICA 3862, Financial Instruments – Disclosures to align with IFRS 7, Financial Instruments – Disclosures. The amendments require all financial instruments measured at fair value to be classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation. In addition, the amendments require enhanced disclosure regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Company has included these disclosures in its financial statements for the period ending December 31, 2009.

#### 4. FUTURE ACCOUNTING STANDARDS

##### *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 a detailed assessment of the impact of the accounting standard differences to the financial statements has been completed. This assessment has provided insight as to the most significant areas of difference applicable to us, including property and equipment, as well as the more extensive presentation and disclosure requirements under IFRS. 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.

We continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of our adoption of IFRS.

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. As we are still in the development phase and have not yet selected our accounting policy choices and IFRS 1 exemptions, we are unable to quantify the impact of IFRS on our financial statements. The areas of significance identified above are based on available information and our current expectations and thus, are subject to change for new facts and circumstances.

##### *Business Combinations*

Section 1582 further aligns Canadian GAAP with U.S. GAAP and IFRS, and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its consolidated financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The Section also establishes disclosure requirements. The impact to the Corporation will be limited to any future acquisitions beginning in fiscal 2011.

##### *Consolidated Financial Statements and Non-Controlling Interests*

Sections 1601 and 1602 further align Canadian GAAP with U.S. GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statements of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Corporation does not believe there will be any impact on its consolidated financial statements upon the adoption of these pronouncements in fiscal 2011, unless the Corporation's circumstances change.

##### *Multiple Deliverable Revenue Arrangements*

In December 2009, the CICA issued EIC Abstract 175, Multiple Deliverable Revenue Arrangements. The EIC deals with arrangements that have multiple deliverables and provides guidance which is to be applied to determine how an arrangement consideration should be measured, whether the arrangement should be divided into separate units of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. This EIC is effective for years beginning January 1, 2011, with early adoption permitted. The Company is currently assessing the future impact of this EIC on its financial statements and has not yet determined the timing and method of its adoption.

**5. CASH AND CASH EQUIVALENTS**

	December 31 <u>2009</u>	December 31 <u>2008</u>
Cash	\$ 7,972,451	\$ 7,167,897
Short term investments	18,301,182	11,429,436
	<u>\$ 26,273,633</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 \$293,322 (2008 - \$270,396) that have been pledged as security to our bank for letters of credit required for bid bonds on certain system installations.

**6. ACCOUNTS RECEIVABLE**

	December 31 <u>2009</u>	December 31 <u>2008</u>
Accounts receivable, trade	\$ 13,526,167	\$ 1,094,940
Commodity taxes receivable	182,605	91,784
Interest receivable	7,828	21,656
	<u>\$ 13,716,600</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 December 31, 2009, trade accounts receivable of \$3,991,093 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 days <u>past due</u>
Accounts receivable, trade	\$ 9,725,507	\$ 2,855,012	\$ 1,109,365	\$ 26,716

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

**7. INVENTORY**

	December 31 <u>2009</u>	December 31 <u>2008</u>
Materials	\$ 2,688,312	\$ 2,146,319
Work in progress	412,424	39,964
	<u>\$ 3,100,736</u>	<u>\$ 2,186,283</u>

During the three months ending December 31, 2009, the Company recorded inventory write-downs for slow moving and obsolete inventory of \$50,000 (Year-to-date-\$125,000).

**8. CAPITAL STOCK**

a) *Authorized*

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

**8. CAPITAL STOCK (continued)**

*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	32,614	56,084
Issued on November 2, 2009 pursuant to bought deal offering	3,697,250	20,704,600
Costs relating to November 2, 2009 offering		(1,416,457)
Balance as at December 31, 2009	31,082,377	\$ 85,337,047

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.

Costs relating to the November 2, 2009 offering include underwriter fees (5% of the gross proceeds or \$0.28 per share) plus various legal and professional fees.

There are no preferred shares outstanding.

*c) Stock-based compensation plan*

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

	Twelve months ended December 31, 2009	
	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,697,226	\$2.90
Granted	413,234	4.50
Exercised	(32,614)	1.47
Forfeited	(69,931)	2.80
Outstanding, end of period	4,007,915	\$3.08

The company recorded an expense of \$182,999 related to stock options during the fourth quarter of 2009 (2008 - \$169,038) and \$726,042 for the twelve months ending December 31, 2009 (2008 - \$653,043) 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 December 31,		Twelve months ended December 31,	
	2009	2008	2009	2008
Risk-free interest rate	2.58%	2.32%	2.25%	2.96%
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	62.55%	65.47%	63.20%	51.30%

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 twelve months ended December 31, 2009, under the Black-Scholes option pricing model, and using the above assumptions was \$2.84 and \$2.28 (December 31, 2008 - \$1.25 and \$2.00)

## 8. CAPITAL STOCK (continued)

### d) Contributed Surplus

	Twelve months ended December 31, 2009	Year ended December 31, 2008
Balance, beginning of year	\$ 1,228,193	\$ 576,065
Stock based compensation expense for the period	726,042	653,043
Amount credited to share capital related to options exercised during the period	(8,135)	(915)
<u>Balance, end of period</u>	<u>\$ 1,946,100</u>	<u>\$ 1,228,193</u>

## 9. EARNINGS (LOSS) PER SHARE

The following is reconciliation between basic and diluted earning (loss) per share:

	Three months ended		Twelve months ended	
	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Net income (loss)	\$ 417,767	\$ (3,815,092)	\$ (9,165,133)	\$ (16,962,892)
Weighted –average number of common shares outstanding	29,748,146	27,352,513	27,956,272	27,351,436
Dilutive effective of stock options	2,990,165	-	-	-
<u>Diluted weighted –average number of common shares outstanding</u>	<u>32,738,311</u>	<u>27,352,513</u>	<u>27,956,272</u>	<u>27,351,436</u>
Earnings (loss ) per share				
Basic	\$ 0.02	\$ (0.14)	\$ (0.33)	\$ (0.62)
Diluted	\$ 0.01	\$ (0.14)	\$ (0.33)	\$ (0.62)

When the Company is in a loss position, there were no adjustments to the weighted number of shares outstanding for the purposes of calculating diluted loss per share because to do so would be anti-dilutive.

For the quarter ended December 31, 2009, 1,017,750 options were excluded from the calculation of dilutive earnings per share based on the treasury stock method, under which options are excluded from the calculation when their exercise price exceeds the average market price of the Company's common shares for the period.

## 10. 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		Twelve months ended	
	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
North America	\$ 19,107,174	\$ 5,113,997	\$ 43,300,369	\$ 15,304,755
Asia Pacific	814,493	619,848	1,117,149	7,647,731
<u></u>	<u>\$ 19,921,667</u>	<u>\$ 5,733,845</u>	<u>\$ 44,417, 518</u>	<u>\$ 22,952,486</u>

#### **10. SEGMENTED INFORMATION (continued)**

During the three months ended December 31, 2009, revenues from three individual customers totalled \$17,419,324 which represents 87% of the total revenue. For the twelve months ended December 31, 2009, revenues from five individual customers totalled \$30,619,856 which represents 69% 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 twelve months ending December 31, 2009.

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

#### **11. RELATED PARTY TRANSACTIONS**

The Company leases air travel time from a company which is wholly owned by the Chairman of IMRIS Inc. The amount charged to travel expenses during the three months ended December 31, 2009 totalled \$301,140 (December 31, 2008 – \$63,000) and \$740,940 for the twelve months ended December 31, 2009 (2008 - \$382,832). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at December 31, 2009 was \$Nil (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 – Nil) or for the twelve months ended December 31, 2009 (2008 - \$96,000). The transactions were priced using arms length pricing and were recorded at the exchange amount.

#### **12. 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 December 31, 2009 totalled \$58,954 (December 31, 2008 - \$50,503) and \$231,064 for the twelve months ended December 31, 2009 (2008 - \$157,426).

#### **13. 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. Management identifies and evaluates financial risks in close cooperation and direction from the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

**13. FINANCIAL RISK MANAGEMENT (continued)**

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 December 31, 2009 are as follows:

	<u>US Dollars</u>
Cash and cash equivalents	\$ 3,609,833
Accounts receivables	12,867,660
Unbilled receivables	4,069,633
Accounts payable and accrued liabilities	<u>(4,934,103)</u>
	<u>\$ 15,613,023</u>

Based on the above net exposures as at December 31, 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%	\$ 1,640,928
Canadian dollar appreciates 10%	(1,640,928)

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 was 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 income 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.

**13. 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 risk. 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 December 31, 2009, revenues from three individual customers totalled \$17,419,324 which represents 87% of the total revenue. (December 31, 2008; two customers represented 78% of the total revenue). For the twelve months ended December 31, 2009, revenues from five individual customers totalled \$30,619,856 which represents 69% of the total revenue. (December 31, 2008; five customers represented 88% of the total revenue). The Company's December 31, 2009 receivables include balances owing from three individual customers who respectively account for 44%, 17% and 13% 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 Board of Directors reviews and approves the Company's operating and capital budgets as well as any material transactions that are not in the ordinary course of business. The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at December 31, 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	\$11,057,930	\$232,013	\$749,304	\$116,299	\$516,980

**14. FINANCIAL INSTRUMENTS**

Fair values

The Company adopted amendments to CICA 3862, Financial Instruments – Disclosures for the period ended December 31, 2009, which require all financial instruments measured at fair value to be classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation. Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 - Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

As at December 31, 2009, no on-balance sheet financial instruments were required to be classified in this manner.

The effective rate of return on short-term investments is approximately 0.47% (December 2008 – 1.44%).

## **15. 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.

In managing capital, the Company estimates its future cash requirements by preparing a budget annually for review and approval by the Board of Directors. The Company also prepares pro-forma financial statement forecasts and a rolling revenue forecast to monitor potential changes to plan. The budget establishes the approved activities for the upcoming year and estimates costs of these activities. Budget to actual variances are prepared quarterly and reviewed by the Company's management and the Board of Directors. Historically, funding for the Company's plan has been through a combination of customer deposits and the issuance of common shares. 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.

Pursuant to its Capital Risk management strategy, 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.

## **16. COMPARATIVE FIGURES**

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

## **17. SUBSEQUENT EVENT**

On February 4, 2010, the Company announced that it has entered into a definitive agreement to acquire NeuroArm Surgical Limited ("NASL"), a privately held company based in Calgary, Alberta, and its magnetic resonance-compatible neurosurgical robot. IMRIS has also entered into a memorandum of understanding with MacDonald Dettwiler and Associates Limited ("MDA") to create the next generation of the technology.

IMRIS will issue 1.6 million common shares for treasury, as consideration for the acquisition of NASL, including the technology, patents and associated intellectual property.

The closing conditions of the transaction were completed on February 5, 2010.