

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This interim Management Discussion and Analysis ("MD&A") is dated as at May 3, 2010 and should be read in conjunction with the interim unaudited consolidated financial statements and the notes thereto for the three months ended March 31, 2010, and with the audited consolidated financial statements and notes thereto for the year ending December 31, 2009. 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.*

*Readers are cautioned that our expectation, beliefs, projections and assumptions used in preparation of such information, although considered reasonable at the time of preparation, may prove to be wrong, and as such, undue reliance should not be placed on forward-looking statements. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties so as a result, we can give no assurance that any of the actual events, performance, results, or expectations will occur or be realized. These forward-looking statements are expressly qualified by this cautionary statement 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 or future events or circumstances. Additional information including our annual information form and management's discussion and analysis for the year ended December 31, 2009 is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### OVERVIEW

IMRIS is a global provider of image guided therapy solutions that deliver timely information to clinicians during surgical or interventional procedures. IMRIS systems incorporate multiple imaging modalities including magnetic resonance "MR" imaging, fluoroscopy and computed tomography into fully integrated imaging suites. Our systems use a variety of patented technologies that enhance patient safety and operating room efficiency.

#### Our Products

*IMRISneuro* – is our flagship product, providing surgeons with high resolution MR images during neurosurgical procedures. Due to the invasive nature of brain surgery and the importance of minimizing disturbance to healthy brain tissue, neurosurgical procedures may benefit from an MRI's unique ability to distinguish between diseased and healthy brain tissue. *IMRISneuro* allows surgeons to make adjustments to the procedure while the procedure is in progress, which may lead to improved patient outcomes and reduce the likelihood that repeat surgeries will be needed.

*IMRIScardio* – provides clinicians with timely and accurate images for visualizing the cardiovascular system before, during and after an intervention. Cardiovascular interventions demand a high level of accuracy in the diagnosis of patients and in the assessment of treatments. The IMRIScardio suite includes a wide-bore 1.5 Tesla MRI scanner and a single-plane angiography system providing the ability to alternate between imaging modalities and immediately assess treatment.

*IMRISnv* – sequentially employs MRI and fluoroscopy in an integrated suite that provides interventional clinicians with imaging for the rapid assessment and post procedure evaluation of neurovascular conditions including stroke, where speed of treatment is a major determinant in the success of patient outcomes. The IMRISnv suite features a wide-bore 3 Tesla MR scanner and a bi-plane angiography system completely integrated into a single suite that permits the patient to transition quickly and seamlessly between MR imaging and intervention without transporting the patient between modalities.

## **Our Customer Value Proposition**

All IMRIS products are designed to assist clinicians to improve outcomes for their patients. Our integrated imaging solutions are based on three fundamental principles:

*Patient Safety* – The patient is never moved during the course of a surgical or interventional procedure in an IMRIS integrated therapy suite. Unlike conventional imaging solutions where the patient is moved for imaging, our solutions move the imaging system to the patient at the right moment in the procedure. This avoids any potential risks associated with having to move the patient to the scanner, and maintains optimum patient positioning during the procedure.

*Clinical Efficiency* – All aspects of IMRIS systems are designed to enhance the workflow of the clinical team. Imaging information is captured rapidly and presented to maximize efficiency and effectiveness for clinicians. In addition, because the imaging system is moved to the patient during use, when not in use, clinicians are afforded unrestricted access to the patient and do not require special MR-compatible instruments for the procedures.

*Financial Utility* – IMRIS systems provide customers with both intraoperative interventional and diagnostic MR imaging capabilities. When not in use during a surgery or interventional procedure, the MR scanner is located in an adjacent room and is available for diagnostic imaging, thereby ensuring that the hospital obtains maximum utility from its equipment.

## **Our Technology**

The creation of high value intellectual property and advancements in technology is an important element of our business. To grow the Company and remain competitive, we are continuously engaged in new product development and enhancement and each year we invest significantly in research and development to drive continuing innovation that supports our competitive position.

Underlying all of our image guided therapy solutions is advanced proprietary technology and intellectual property that we have developed as part of our unique solutions. The protection of these products, our processes and know-how is integral to our business. We have patents in place in the United States, Canada and other countries where available to protect our core patent family. In addition, we have filed a number of additional patent applications that are directed to specific aspects of our technology. At March 31, 2010 we had 33 patents either issued or pending. As we develop our technologies we will continue to seek patent protection to contribute to our competitive advantage.

## **Our Business Model**

The purchase and installation of an IMRIS system represents a significant capital project for our customers that can range from approximately \$4 million to \$12 million. In addition to our equipment, customers may require further capital expenditures for room construction and ancillary operating room equipment. The sales cycle for our systems is both complex and lengthy as a result of the large capital expenditure associated with the purchase of an IMRIS system and the number of stakeholders who are engaged in the process. As such, a typical sales cycle can be more than 12 months from initial customer engagement to 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.

We invoice customers for the system in installments spread over a number of milestones which 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.

## Q1 2010 HIGHLIGHTS

Through the first quarter of 2010 we made solid progress advancing our business strategies. Highlights from the quarter included:

- Quarterly sales of \$12.5 million a 161% increase over Q1 2009.
- Gross profit as a percentage of sales improved to 41% compared with 38% in Q1 2009.
- Received our first IMRISneuro order in Germany, our second sale into Europe.
- IMRISNV and IMRIScardio approved for sale in Australia.
- Acquired NeuroArm Surgical Limited, an MR compatible surgical robotics system with the issuance of 1.6 million common shares from treasury.

## SUMMARY OF SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the dates and periods indicated.

<b>Statement of Operations</b>				
(Thousands of CDN dollars, except per share amounts)				
(Unaudited)				
	Three months ended			
	March 31			%
	2010	2009		Change
Sales	\$ 12,548	\$ 4,804		161%
Cost of sales	7,463	2,957		152%
<b>Gross profit</b>	<b>5,085</b>	<b>1,847</b>		<b>175%</b>
As a percentage of sales	40.5%	38.4%		
Operating expenses				
Administration	1,868	1,474		27%
Sales and marketing	1,755	1,704		3%
Customer support and operations	1,192	1,065		12%
Research and development	1,267	1,077		18%
Amortization	850	499		70%
	6,932	5,819		19%
Operating loss before the following	(1,847)	(3,972)		-54%
Foreign exchange (loss) gain	(133)	337		
Interest income	4	4		
<b>Net loss for the period</b>	<b>\$ (1,976)</b>	<b>\$ (3,631)</b>		<b>-46%</b>
<b>Basic and fully diluted loss per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.13)</b>		<b>-54%</b>

## Results of Operations

### *Sales*

Sales increased by approximately \$7.7 million or 161% to \$12.5 million for the three months ended March 31, 2010 over the same period in 2009. The growth in revenue in the quarter is attributed to the delivery of the additional systems.

Sales for the three months ended March 31, 2010 included \$12.0 million of revenues associated with new system deliveries and \$0.5 million of revenues associated with extended maintenance contracts. This compares to \$4.5 million of new system sales and \$0.3 million in extended maintenance contracts for the same prior period.

### *Gross Profit*

Gross profit for the three months ended March 31, 2010 increased by approximately \$3.2 million to \$5.1 million as compared to the same period in the prior year. Gross profit as a percentage of sales increased from 38.4% in the first quarter of 2009 to 40.5% in the first quarter of 2010. The overall continued improvement in margin reflects the realization of price increases established in 2008 based on the IMRISneuro system achieving greater market acceptance. The current quarter also contained two in process lower margin system installations including our first IMRIScardio system which created some downward pressure on the gross profit percentage. We expect to see improved margins on the IMRIScardio and IMRISNV as we achieve greater market acceptance.

### *Operating Expenses*

Operating expenses for the first quarter were \$6.9 million, an increase of approximately \$1.1 million or 19% over the first quarter of 2009. The quarterly increase is primarily a result of increased costs in administrative and amortization expense. Administrative expenses increased in the first quarter mainly due to costs associated with increased staff levels and to the realignment of our organizational structure to meet the growing global demand of our products. Amortization expense increased in the first quarter as we began to amortize the intangibles acquired on the NeuroArm acquisition and higher amortization expense for research and development equipment.

At the departmental level, administrative expenses for the first quarter of 2010, increased to \$1.9 million from \$1.5 million in the first quarter of 2009, a 27% increase. The first quarter increase is a result of increased staff costs (\$0.3 million) associated with the establishment of our new organization structure including the creation and staffing of a chief operating officer position. We also incurred additional one-time facility costs (\$0.1 million) associated with the lease on our headquarters.

Sales and marketing expenses for the first quarter of 2010, increased to \$1.8 million from \$1.7 million in the first quarter of 2009, a 3% increase. The first quarter increase is mainly due to small increases in promotion expenses and office expenses.

Customer support and operations expense for the first quarter of 2010, increased to \$1.2 million from \$1.1 million in the first quarter of 2009, a 12% increase. The first quarter increase is mainly attributed to an increase in wages and benefits (\$0.2 million) associated with additional staff to support the higher system volume delivered in the periods. The Company allocated more wages directly to cost of goods as a result of increased activities, which lowered the expenses in the department by \$0.1 million as compared to the prior year.

Research and development expenses for the first quarter of 2010 increased to \$1.3 million from \$1.1 million in the first quarter in 2009, an 18% increase. The quarterly increase is primarily due to an increase in staff levels and new maintenance contracts for research and development equipment.

Amortization expense for the first quarter of 2010 was \$0.9 million versus \$0.5 million in the first quarter of 2009, an increase of 70%. The first quarter increase in amortization expense resulted from the commencement of amortization on the NeuroArm patents and increased amortization relating to our research and development test facility.

The Company had a foreign exchange loss of \$0.1 million in the first quarter of 2010 compared to a foreign exchange gain of \$0.3 million in 2009. The foreign exchange loss during the first quarter resulted from the decrease in value of the US dollar relative to the Canadian dollar. The majority of the Company's sales are denominated in US dollars; as such we held US dollar denominated net assets during the period which were negatively impacted as the US dollar weakened against the Canadian dollar.

Interest income for the first quarter of 2010 and 2009 were insignificant as a result of the extremely low yields on short-term money market instruments.

### *Operating Loss and Net Loss for the Period*

The Company's operating loss for the first quarter of 2010 was \$1.8 million compared to an operating loss of \$4.0 million in the first quarter of 2009, a decrease of 54%. The net loss for the first quarter of 2010 was \$2.0 million compared to \$3.6 in the prior year quarter, a decrease of 46%. The quarter over quarter improvement is due primarily to increased sales volume and higher gross profit offset by additional operating expenses to fund the growth in the business and higher foreign exchange losses.

### *EBITDA*

We use the non-GAAP measure EBITDA to measure aspects of our financial performance (see "Non-GAAP Financial Measures" for a reconciliation of EBITDA to GAAP measures). We define EBITDA as earnings before interest income (expense), foreign exchange gain (loss) income taxes and amortization.

In the first quarter of 2010 we had negative EBITDA of \$1.0 million compared with negative \$3.5 million in the first quarter of 2009. The improvement in EBITDA was primarily due to increased sales volumes and higher gross profit margins, net of higher operating expenses used to fund growth in the business.

## SUMMARY OF QUARTERLY RESULTS

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

(Thousands of CDN dollars) (Unaudited)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales	\$ 12,548	\$ 19,922	\$ 9,864	\$ 9,828	\$ 4,804	\$ 5,734	\$ 4,869	\$ 8,191
Cost of sales	7,463	10,992	5,402	5,399	2,957	4,313	3,542	6,733
Gross Profit	5,085	8,930	4,462	4,429	1,847	1,421	1,327	1,458
As a percentage of sales	40.5%	44.8%	45.2%	45.1%	38.4%	24.8%	27.3%	17.8%
Operating expenses								
Administration	1,868	1,815	1,643	1,774	1,474	1,719	1,734	1,613
Sales and marketing	1,755	2,770	1,601	1,964	1,704	1,742	1,748	1,638
Customer support and operations	1,192	1,507	1,161	1,217	1,065	955	1,021	1,042
Research and development	1,267	1,430	1,134	1,283	1,077	1,271	1,420	1,110
Amortization	850	597	539	527	499	504	433	270
	6,932	8,119	6,078	6,765	5,819	6,191	6,356	5,673
Operating (loss) income before the following	(1,847)	811	(1,616)	(2,336)	(3,972)	(4,770)	(5,029)	(4,215)
Foreign exchange (loss) gain	(133)	(368)	(1,034)	(961)	337	881	231	(45)
Interest income (expense)	4	(25)	(6)	1	4	74	118	197
Net (loss) income for the quarter	\$ (1,976)	\$ 418	\$ (2,656)	\$ (3,296)	\$ (3,631)	\$ (3,815)	\$ (4,680)	\$ (4,063)
Earning (loss) per share								
Basic	\$ (0.06)	\$ 0.02	\$ (0.10)	\$ (0.12)	\$ (0.13)	\$ (0.14)	\$ (0.17)	\$ (0.15)
Diluted	\$ (0.06)	\$ 0.01	\$ (0.10)	\$ (0.12)	\$ (0.13)	\$ (0.14)	\$ (0.17)	\$ (0.15)

The financial results for the eight most recent quarters reflect the progression of an early stage Company with a limited operating history. Factors that have caused our results to vary are described below.

- The general trend has been for strong growth in sales over the quarters as the Company has achieved increased market acceptance. As a result of 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 have varied depending on the number and stage of active projects in any given quarter.
- Gross profit has improved significantly with increased sales volumes and higher pricing. Our initial pricing strategy was market penetration based. As product recognition and adoption occurred we increased our pricing to reflect the underlying value of IMRIS systems. This change has resulted in improved gross profit as a percentage of sales particularly comparing the 2008 quarterly results with those achieved in 2009.
- Net losses have generally decreased from quarter to quarter but have varied depending on the timing of when specific projects are installed and the pricing associated with the respective projects. The improvements over time reflect the increases in gross profit described above, controlled increases in operating expenses to meet growth in the business and foreign exchange gains and losses.
- Most of our sales to date have been denominated in currencies other than the Canadian dollar which can give rise to foreign exchange gains or losses depending on the change in value of the Canadian dollar versus other currencies in each quarter. For most of 2008, the relative value of the Canadian dollar versus the US dollar resulted in the recording of foreign exchange gains. In the last three quarters of 2009 and first quarter of 2010, we incurred foreign exchange losses primarily as a result of changes in the relative values of these two currencies.

- On November 2, 2009 we completed an equity financing with the issuance of 3,215,000 common shares and an additional 482,250 common shares granted as an overallotment option, resulting in net proceeds of \$19.3 million. With completion of the financing, our total number of shares outstanding increased compared with prior quarters.

## BACKLOG

We use the non-GAAP measure “backlog” to measure aspects of our financial performance (for more information, see “Non-GAAP Financial Measures”). Backlog is defined as the unrecognized portion of (i) revenues anticipated to be recorded from confirmed system orders and (ii) executed service contracts with a term of four to five years and which commence at the conclusion for the warranty period on our systems (typically one year). Historically IMRIS has included the next twelve months of revenues to be derived from executed service contracts in its backlog. However, given the value these fully executed service contracts have now reached, the Company believes it is appropriate to begin segmenting and reporting 100% of these unrecognized revenues as a component of its backlog. The term of our service contracts generally ranges from 4 to 5 years commencing at the conclusion of the warranty period on our systems which typically are 1 year in length. Service contract revenue is recognized ratably over the term of the contract.

In the first quarter of 2010, system order bookings totalled \$6.3 million and included one new customer order in Europe and an order from an existing customer for an upgrade to an IMRIScardio system. During the quarter \$12.5 million of backlog was converted into revenues, and the appreciation of the Canadian dollar versus the US dollar resulted in a \$2.1 million reduction in the value of the backlog. Net of these items, backlog at March 31, 2010 was \$104.4 million. We continue to convert past order backlog to recognized revenue and we are reasonably confident that we will convert our present order backlog to recognized revenue going forward.

The table below provides the Company’s backlog on this segmented basis at March 31, 2010 and its comparable prior year period and a restatement of each of the last four years as of December 31:

(Thousands of CDN dollars)	<i>December 31, 2006</i>	<i>December 31, 2007</i>	<i>December 31, 2008</i>	<i>December 31, 2009</i>	<i>March 31, 2009</i>	<i>March 31, 2010</i>
System orders	\$ 19,062	\$ 31,191	\$ 66,384	\$ 87,569	\$ 82,536	\$ 80,384
Service contracts	3,555	3,164	11,811	25,167	13,581	24,040
Total backlog	\$ 22,617	\$ 34,355	\$ 78,195	\$ 112,736	\$ 96,117	\$ 104,424

The following table is a reconciliation of the new definition and presentation of backlog to the previous presentation of order backlog:

(Thousands of CDN dollars)	<i>December 31, 2006</i>	<i>December 31, 2007</i>	<i>December 31, 2008</i>	<i>December 31, 2009</i>	<i>March 31, 2009</i>	<i>March 31, 2010</i>
Backlog Total – as above	\$ 22,617	\$ 34,355	\$ 78,195	\$ 112,736	\$ 96,117	\$ 104,424
Service Contracts – portion greater than one year	(3,055)	(2,624)	(10,389)	(23,325)	(12,045)	(22,186)
Order Backlog	\$ 19,562	\$ 31,731	\$ 67,806	\$ 89,411	\$ 84,072	\$ 82,238

To March 31, 2010, we had sold 36 systems, 20 of which are installed and 16 of which are in the delivery phase. Of the 36 systems sold, 25 are in the United States, 5 are in Canada, 4 systems are in Asia Pacific and 2 systems are in Europe.

## **ACQUISITION OF NEUROARM SURGICAL LTD.**

On February 4, 2010, the Company announced that it entered into a definitive agreement to acquire all of the common shares of NeuroArm Surgical Limited (“NASL”), a privately held company based in Calgary, Alberta, and its magnetic resonance-compatible neurosurgical robotics system. The Company also entered into a memorandum of understanding with MacDonald Dettwiler and Associates Limited (“MDA”) to create the next generation of the technology. The transaction closed on February 5, 2010.

The transaction was completed through the issuance of common shares from treasury and included the technology, patents and associated intellectual property. The acquisition of NASL was determined to be as acquisition of assets and not a business combination as NASL did not meet the definition of a business.

The Consideration offered to complete the acquisition was 1.6 million shares of the Company with a value of \$10.4 million, or \$6.50 per share. Transaction costs to complete the acquisition were \$0.1 million which brought the total purchase price to \$10.5 million.

The Company has issued 20% of the shares, being 320,000 common shares into escrow for a period of 24 months for any claims that could be made against NASL.

## **OUTLOOK**

When our Company was formed in 2005, our initial focus was on gaining market acceptance for IMRISneuro and securing early technology adopters ensuring the successful delivery of each customer installation as we developed our core competencies across all facets of the organization. Today, IMRISneuro has become the solution of choice and is installed in leading neuroscience centers around the world. We have broadened our market opportunity with the recent introduction of IMRISnv and IMRIScardio and will use a similar strategy to secure early adopters while continuing to leverage our technology platforms and core competencies in support of bringing new application-specific solutions to market.

IMRIS systems have been purchased by medical facilities in regions around the world including the United States, Canada, India, China, Australia and Europe. We continue to focus on expanding our sales and marketing resources on North America, Europe and China. We have aligned our organization structure and resources to support this approach and established regional organizations in each of these markets to move decision-making as close as possible to the customer. We believe by expanding our presence in Europe and China with a continuing focus on North America, that we can capitalize on significant market opportunities on a global scale. We plan to selectively address other emerging market opportunities with distributor arrangements.

We have a strong track record of meeting our installation schedules and ensuring customer satisfaction. We continue with our plans to build additional capacity and capability across the Company to ensure we meet our customer commitments and financial objectives. We are expecting to see an increase in backlog conversion this year. In order to meet this anticipated growth, we continue to strategically add sales and marketing and customer support resources in our global regions to ensure we manage the expected ongoing growth in our business effectively.

Since first coming to market, we have expanded our product portfolio to include IMRISnv and IMRIScardio. Our recently announced acquisition of NASL and its MRI compatible neurosurgical robot system builds on the Company’s vision to deepen its offering of its image guided solutions. The Company’s collaboration with MacDonald, Dettwiler and Associates Ltd., a world leader in robotics, to create the next generation of the technology, provides the Company with a number of potential applications for medical practitioners. We plan to continue the advancement of our longer term initiatives for radiation and interventional therapies including new the robotics systems as well as making a concentrated effort to further enhance the value of our existing product portfolio in image guided therapy solutions.

We continue to be committed to investing prudently in our business to capture the growth potential we believe exists for IMRIS’s image guided therapy solutions. This includes hardening existing product lines and effectively managing costs to support the overall goal of growth in profitability.

## 2010 Financial Outlook

We are expecting a strong year of growth in 2010 as we advance our business plan and execute on our corporate priorities. Although our order bookings in the first quarter of 2010 were lower than in recent quarters, our 2010 order flow is expected to build on the positive trends in 2009.

We expect to continue to convert our backlog into revenues at a higher rate than historical trends. As we move through the year, we continue to focus on advancing customer installations in support of converting orders into recognized revenues. Our ability to complete installations is highly dependent on the readiness of customer sites which are often part of a larger hospital construction project. As a result, we can experience delays in our delivery schedule which are beyond our control resulting in an unbalanced quarterly revenue profile. While we do not control our customers' broader construction schedules, through our active involvement in managing each customer program we continue to work to minimize the potential for delays and shorten the delivery cycle of those elements that are within the Company's control.

In 2010, we expect full year gross profit as a percentage of sales to be comparable to 2009 levels. Although we experienced a reduction gross margin performance in the first quarter of 2010 compared with the full year of 2009, it was in-line with our expectations as we are in the process of installing our first IMRISnv/IMRIScardio system. We expect to see some additional quarterly variability including second quarter 2010 gross margin performance at levels similar to the first quarter as we complete 2 lower margin projects including the IMRISnv/IMRIScardio system noted above. While some erosion on margin may occur related to exposure to a weakening U.S dollar, we believe this can be offset as part of our focus on incrementally reducing component costs through various cost reduction and sustaining engineering programs in 2010.

Operating expenses for 2010 are expected to increase over 2009 levels as we add more capacity in anticipation of an increase in system deliveries and deliver on planned objectives. The primary driver of capacity will be the continued investment in the sales and marketing area to expand our global presence and additional support in the customer solutions and delivery area of the business to manage our expected growth. In addition, we will continue to invest in research and development programs to add depth to our product offerings, including an investment to further develop the surgical robotics technology acquired from NASL and our image guided radiation therapy program.

We have solid balance sheet strength with cash and receivables totaling \$27.4 million at March 31, 2010. This together with anticipated positive cash flow from operations in 2010 as well as cash from customer deposits on future orders is expected to provide sufficient liquidity to fund our operations through the year. We will continue to critically explore potential strategic opportunities which can expand our business. As a result, we may require substantial additional financing if we determine there a need to accelerate our efforts in any or all of our key business areas, such as research and development, sales and marketing, or production, or if we generally want to improve our balance sheet to remain competitive in the marketplace.

## 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 advanced customer deposits from new orders.

We had cash or cash equivalents of \$19.9 million as at March 31, 2010, a decrease of \$6.3 million from December 31, 2009. The decrease from December 31, 2009 primarily resulted from the cash operating loss of \$0.9 million, a increase in working capital of \$3.0 million, capital spending and acquisition costs of \$0.5 million and setting aside restricted cash of \$2.2 million offset by issuance of new shares for \$0.2 million.

The following table sets forth the summary statement of cash flows for the periods indicated:

<b>Statements of Cash Flows</b>				
(Thousands of CDN dollars)				
(Unaudited)				
	Three months ended			
	March 31			
	2010	2009		Change
<b>Cash flows:</b>				
From (used in) Operating Activities	\$ (3,919)	\$ (4,871)	\$	952
From (used in) Financing Activities	235	(3)		238
Used in Investing Activities	(2,648)	(1,023)		(1,625)
Net increase (decrease)	(6,332)	(5,897)		(435)
Cash and cash equivalents, opening	26,274	18,597		
Cash and cash equivalents, closing	\$ 19,942	\$ 12,700	\$	7,242

## Operating Activities

The cash used in operating activities for the three months ended March 31, 2010 was \$3.9 million. The cash used in the first quarter of 2010 was comprised of the operating loss (excluding non-cash related items) of approximately \$0.9 million and \$3.0 million increase in working capital. This increase in working capital is made up of a decrease in accounts payable and accruals (\$4.9 million) offset by a decrease in receivables (\$1.6 million) and an increase in customer deposits (\$0.3 million).

## Financing Activities

Financing activities for the three months ended March 31, 2010 was \$0.2 million. The cash generated in financing activities for the current quarter was as a result of employee share options being exercised.

The Company issued 1.6 million shares for 100% of the issued and outstanding shares of NASL. The price per common share was valued at \$6.50. This was treated as a non-cash transaction and thus had no impact on the Company's cash flow statement.

## Investing Activities

The cash used in investing activities (net of restricted cash) for the three months ended March 31, 2010 was approximately \$0.5 million. During the current quarter, the Company purchased computer equipment for \$0.2 million, and miscellaneous other capital assets (\$0.2 million). The company also incurred \$0.1 million in acquisition cost associated with the purchase of NASL.

The Company had restricted cash of \$2.2 million which will be used to offset future supplier invoices.

Capital expenditures for the remainder of 2010 are expected to be in the range of \$1.5 million to \$2.0 million for computer hardware and software and office equipment to support our increased staff levels.

## Liquidity and Capital Resources Summary

Our cash and cash equivalents as at March 31, 2010 totaled \$19.9 million. This cash position and 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 current operations and existing projects and budgeted capital asset expenditures. We may require additional financing if we determine there a need to accelerate our efforts in any or all of our key business areas, such as research and development, sales and marketing, or production.

## OUTSTANDING SHARE DATA

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

	Authorized	May 3, 2010	December 31, 2009
Common shares	unlimited	\$95,995,343 (32,584,815 common shares)	\$85,337,047 (31,082,377 common shares)
Preferred shares	unlimited	Nil	Nil
Contributed surplus		\$2,154,2170	\$1,946,100

As at May 3, 2010 a total of 4,228,296 stock options were outstanding under the Company's stock option plan.

## NON-GAAP FINANCIAL MEASURES

In this MD&A, we use the non-GAAP measure "Backlog" and "EBITDA". We define backlog as the unrecognized portion of the revenues anticipated to be recorded from confirmed system orders and the unrecognized portion of executed service contracts which have a term of 4-5 years commencing at the conclusion of the warranty period on our systems which is typically one year in length. In view of the long sales cycle, high unit price and limited quarterly installations that are characteristic of our business, we believe that our backlog provides a better measure at any particular point in time of the long-term performance prospects of our business than our quarterly operating results. Backlog does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable to similar measures presented by other companies.

We define EBITDA as the earning before financing interest income (expense), foreign exchange gain (loss), income taxes, and amortization. We have begun reporting EBITDA because we believe investors use it as another measure of our operating performance. EBITDA does not have a standardized meaning as prescribed by Canadian generally accepted accounting principles and it is not necessarily comparable to similarly titled measures used by other companies.

A reconciliation to the most comparable GAAP measure for EBITDA is as follows:

(Thousands of CDN dollars)	Three months ended	
	March 31, 2010	March 31, 2009
Loss and comprehensive loss	\$ (1,976)	\$ (3,631)
Foreign exchange loss (gain)	133	(337)
Interest (income)	(4)	(4)
Amortization	850	499
EBITDA	\$ (997)	\$ ( 3,473)

## **FINANCIAL INSTRUMENTS**

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivables, unbilled receivables, and accounts payable and accrued liabilities.

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, 2010 were \$18.2 million and were invested in an interest bearing saving accounts. Of this total, \$Nil was denominated in US dollars.

Our accounts receivable at March 31, 2010 were \$7.5 million, of which \$7.4 million is considered current (less than 60 days old). Accounts receivable include \$1.6 million that are denominated in US 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 our Chairman. 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 2010 was \$Nil (2009 - \$153,300).

As at March 31, 2010, the balance payable to this related party was \$Nil versus \$Nil as at December 31, 2009.

## **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.

## 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. The transition from Canadian generally accepted accounting principles ("GAAP") to IFRS will be applicable for the Company's first quarter of 2011, at which time the Company will prepare both its fiscal 2011 and fiscal 2010 comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes, disclosure controls, internal controls over financial reporting and information systems.

We have developed a detailed IFRS implementation plan, which consists of three phases: scoping and diagnostic phase, impact analysis, evaluation and design phase and implementation and review phase. The Company has completed the scoping and diagnostic phase, and is continuing to progress with the impact analysis, evolution and design phase. The implementation and review phase have been devised. We provide quarterly updates to the Audit and Governance Committee as to the status of our IFRS implementation plan. We continue to work toward completion of the implementation plan and are on schedule.

A detailed review of the major differences between Canadian GAAP and current IFRS has been completed and the Company has determined that the areas listed below are expected to have the greatest impact on the Company's Consolidated Financial Statements. The list and comments are intended to highlight only those areas believed to be the most significant and is not intended to be a complete and exhaustive list of all expected changes. 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. The areas of significance identified are based on available information and our expectations as of the date of this MD&A and thus, are subject to change for new facts and circumstances.

#### *First-Time Adoption*

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides guidance to entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company expects to apply the following significant optional exemptions available under IFRS 1 on the opening transition date of January 1, 2010:

- (i) Business combinations – The Company will not restate any business combinations prior to the transition date
- (ii) Fair value or revaluation as deemed costs – The Company will not elect to revalue any property plant or equipment to fair value.
- (iii) Share based payment transactions – The Company will elect not to adjust any vested options as at the transition date and apply IFRS 2 prospectively on the non-vested stock options as at January 1, 2010.

### *Property, Plant and Equipment*

Consistent with Canadian GAAP, under IAS 16 *Property Plant and Equipment*, separable components of property, plant and equipment are recognized initially at cost. The level of detail in which property plant and equipment is componentized under IFRS is expected to be greater than under Canadian GAAP. The Company does not believe it will materially impact our financial results.

Under IFRS an entity is required to choose to account for each class of property, plant and equipment using either the cost model or the revaluation model. The cost model is generally consistent with Canadian GAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation method an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. Subsequent increases in fair value are recorded to the revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account related to the asset, with any excess recognized in income. The Company will continue to use the cost model in valuing its property, plant and equipment

### *Stock Based Compensation*

The guidance provided by IFRS 2, *Share Based Payments*, is largely consistent with Canadian GAAP and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. The use of the Black- Scholes model is an acceptable method under IFRS to estimate the fair value of the options at the date of grant, and is consistent with the Company's current practice. For share options that vest in installments, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value. Unlike Canadian GAAP, IFRS does not include the straight line method as an alternative to the attribution method for awards with a service condition and graded-vesting features. The Company will need to account for its awards using the attribution method. Currently the Company records forfeitures as they occur, however upon transition to IFRS, the Company will be required to make an estimate of the forfeiture rates for use in the determination of the total share based compensation expense. These changes will result in a difference in valuation of the stock based awards and timing differences for the recognition of compensation expenses.

### *Revenue Recognition*

The guidance provided by IAS 11 *Construction Contracts* regarding percentage of completion accounting is consistent with Canadian GAAP. Under the current IFRS, the Company does not expect any significant differences in the recognition and timing of its revenue.

There is current a proposal to change the IFRS revenue model which contemplates the convergence of IAS 11 and IAS 18 *Revenue Recognition*. The proposal contemplates switching revenue recognition from a risks and rewards model to a notion of a customer taking control of goods and services (a balance sheet approach). This may have an effect on the timing of revenue recognition for entities reporting under IFRS including IMRIS. Accounting for construction contracts may change, as entities may be precluded from recognizing revenue during the construction phase if control of the asset does not transfer to the customer until completion. In addition, revenues for each element of an arrangement (i.e. – warranties) will be measured based on an allocation of the transaction price to the various elements of the contract and only recognized when the element is satisfied. These proposed changes could have a material impact to the recognition and timing of the Company's revenues. At this time there has been no decision as to whether any of the proposed changes are going to be made. The Company continues to monitor the situation and will reassess its revenue recognition policies under IFRS if and when and changes are made

### *Income Taxes*

The current version of IAS 12 *Income Taxes* is similar to Canadian GAAP with the following exception that all deferred taxes assets and liabilities are treated as long term instead of the Canadian GAAP approach of allocating between current and long term portions. We expect there will be limited systems impact in the determination of the tax provision. Additionally, the Company is in the process of assessing the impact of various transitional adjustments on the income tax balances.

### *Functional Currency*

International Accounting Standard 21, *The Effects of Changes in Foreign Exchange Rates*, requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. A list of primary and secondary indicators is used under IFRS in this determination. Canadian GAAP does not provide specific guidance as to the determination of functional currency for a reporting domestic entity. It assumes that the functional of an entity is the currency of the entity's country of domicile (e.g. CAD for a Canadian location).

The Company, has prepared a preliminary analysis applying the primary and secondary indicators in the standard and determined that the functional currency of each of its entities matches the currency of the country of domicile for the entity. Given the analysis and current conditions under which we operate, the Company's presentation currency will remain in Canadian Dollars.

### *Impairment of Assets*

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, *Impairment of Assets*, uses a one-step approach testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-down where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

However, the extent of any new write-down may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

The Company is in the process of reviewing the standard but at this time believe this will not have a significant impact on our results.

### *Provisions*

International Accounting Standard 37, *Provision, Contingent Liabilities and Contingent Assets*, requires a provision to be recognized when all of the following conditions have been satisfied:

- (1) there is a present obligation as a result of a past transaction or event; and
- (2) it is probable that an outflow of resources will be required to settle the obligation; and
- (3) a reliable estimate can be made of the obligation.

"Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that are not currently recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low end of the range), and there is a requirement under IFRS for provisions to be discounted where material.

The Company has not completed an assessment as to its potential impact on our results.

### *Summary*

The Company is monitoring the potential impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting arising from the adoption of IFRS. The Company has not finalized quantifying the effects of the potential significant differences between IFRS and Canadian GAAP and they may or may not be material to our results. The Company will continue to assess the impact of adopting IFRS, and will update our IFRS changeover plan and anticipated impacts on our results.

## **Business Combinations**

In January 2009, the CICA issued Section 1582 “Business Combinations” to replace Section 1581. The new section 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. Prospective application of the standard is effective for fiscal years beginning on or after January 1, 2010 with early adoption permitted.

## **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.

## **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 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 2009 annual report and are not aware of any material changes that are required to be made 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 (ICFR) 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 effective 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 2010.

## **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 IMRISNV; 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 ability to 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 discussed 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 2009 Annual Information Form available at [www.sedar.com](http://www.sedar.com).

### **Long Sales Cycle, High Unit Price and Limited Installations**

The long sales cycle, as well as the high unit price of the IMRIS systems, among other factors, may contribute to substantial fluctuations in our quarterly operating results. Because of the high unit price of IMRIS systems and the fact that we have installed only 20 units over the Company's history, 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 IMRIS 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 and we may not achieve profitability. We have incurred substantial losses since inception and despite achieving profitability in the fourth quarter of 2009; we may incur additional operating losses in the near term. If the time required to generate significant revenues and achieve profitability on an annualized basis 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 commercially available products are the IMRISneuro, IMRIScardio and IMRISNV systems. Although we expect sales of our new IMRIScardio and IMRISNV systems to increase with market acceptance of these systems, we currently generate substantially all of our revenue 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 or grow sales of IMRIScardio and IMRISNV, we may not generate sufficient revenue to support our business. Accordingly, we are currently 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.

## **Foreign Exchange Fluctuations**

As a global provider of integrated imaging solutions, most of our sales are denominated in currencies other than the Canadian dollar. We currently generate a significant portion of our sales in US dollars but many of our expenses are denominated in Canadian dollars. To date, we have not used forward exchange contracts to hedge exposures denominated in US dollars or any other derivative instrument for trading, hedging or speculative purposes. As such, we are exposed to fluctuations in the exchange rate between the US dollar and the Canadian dollar as a result of the translation into Canadian dollars of our balance sheet and income statement items denominated in US dollars.

## **Regulatory Matters**

Products intended for diagnostic and therapeutic use for humans are governed by a wide array of regulatory authorities in various jurisdictions. For most of these products in most jurisdictions, applicable statutes and regulations require testing and government review and approval prior to marketing the product. This procedure can take a number of years and involves the expenditure of substantial resources. Any failure or delay by us to obtain regulatory approvals or clearances could adversely affect the marketing of any products developed by us and our ability to receive product revenue. There is no assurance that any of our planned products will be approved by any regulatory authority on a timely basis, or at all. Also, in the event that a regulatory authority revokes any approvals granted in respect of our products, or a recall of our products is required in the event of material deficiencies or defects, our business, financial condition and results of operations could be adversely affected.

## **Dependence on Suppliers**

We depend on Siemens to supply the MR scanner and angiography systems for our IMRIS systems. Our current agreement with Siemens was entered into as of November 2009 for a five-year term with automatic renewal provisions thereafter, subject to six months' advance written notice of termination by either party. The agreement may be terminated earlier in the event of default or 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 MR scanners and angiography systems from Siemens, there is no certainty that we could find another vendor willing to supply this equipment for the IMRIS systems and a change would require a redesign of the IMRIS systems, which could take a year or more to implement. We are dependant on Siemens to provide 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 IMRIS 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 IMRIS can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).