



CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

February 26, 2010

(Date Issued)



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AUDITORS' REPORT

To the Shareholders of
IMRIS Inc.

We have audited the consolidated balance sheets of IMRIS Inc. as at December 31, 2009 and 2008 and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants

Winnipeg, Manitoba
February 17, 2010

IMRIS INC.		
Consolidated Balance Sheets		
As at December 31,		
(In CDN dollars)		
	2009	2008
Assets		
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
	50,460,818	26,177,348
Property, plant, and equipment, net (note 8)	8,382,171	6,884,653
Goodwill	6,462,808	6,462,808
Patents, net (note 9)	278,036	323,961
	6,740,844	6,786,769
Total assets	\$ 65,583,833	\$ 39,848,770
Liabilities and Shareholders' equity		
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 (note 10)	-	8,624
	33,722,555	18,884,493
Shareholders' equity		
Share capital (note 11b)	85,337,047	65,992,820
Contributed surplus (note 11d)	1,946,100	1,228,193
Deficit	(55,421,869)	(46,256,736)
	31,861,278	20,964,277
Commitments (note 13)		
Total liabilities and shareholders' equity	\$ 65,583,833	\$ 39,848,770
Approved on behalf of the Board of Directors		
/s/		
H. David Graves Chairman		
/s/		
David A. Leslie, F.C.A. Director		
See accompanying notes		

IMRIS INC.
Consolidated Statements of Loss and Comprehensive Loss and Deficit
For the years ended December 31,
(In CDN dollars)

	2009	2008
Sales	\$ 44,417,518	\$ 22,952,486
Cost of sales	24,748,219	18,344,182
Gross profit	19,669,299	4,608,304
Operating expenses		
Administrative	6,706,411	6,807,248
Sales and marketing	8,039,705	6,450,458
Customer support and operations	4,950,479	3,930,270
Research and development	4,923,818	4,705,505
Amortization	2,161,959	1,457,035
Total operating expenses	26,782,372	23,350,516
Operating loss before the following	(7,113,073)	(18,742,212)
Other (expense) income		
Foreign exchange (loss) gain	(2,025,355)	1,118,553
Interest (expense) income	(26,705)	660,767
Total other (expense) income	(2,052,060)	1,779,320
Loss before taxes	(9,165,133)	(16,962,892)
Income taxes (note 12a)	-	-
Loss and comprehensive loss for the year	(9,165,133)	(16,962,892)
Deficit, beginning of year	(46,256,736)	(29,293,844)
Deficit, end of year	\$ (55,421,869)	\$ (46,256,736)
Weighted average number of common shares	27,956,272	27,351,436
Basic and diluted loss per share	\$ (0.33)	\$ (0.62)

IMRIS INC.
Consolidated Statements of Cash Flows
For the years ended December 31,
(In CDN dollars)

	2009	2008
OPERATING ACTIVITIES		
Loss for the year:	\$ (9,165,133)	\$ (16,962,892)
Items not affecting cash		
Amortization	2,161,959	1,457,035
Stock based compensation	726,042	653,044
Loss on disposal of assets	1,841	-
	<u>(6,275,291)</u>	<u>(14,852,813)</u>
Changes in non-cash working capital items		
Accounts receivable	(12,508,220)	2,904,873
Unbilled receivables	(2,150,146)	(2,303,387)
Investment tax credits receivable	-	260,784
Inventory	(914,453)	460,818
Prepaid expenses	(1,034,351)	(653,917)
Accounts payable and accrued liabilities	6,444,540	2,213,505
Customer deposits	8,402,146	5,512,049
	<u>(1,760,484)</u>	<u>8,394,725</u>
	<u>(8,035,775)</u>	<u>(6,458,088)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of share capital (net)	19,336,091	6,285
Repayment of long term debt	-	(211,593)
Repayment of obligation under capital lease	(8,624)	(10,858)
	<u>19,327,467</u>	<u>(216,166)</u>
INVESTING ACTIVITIES		
Proceeds from sale of assets	1,370	-
Acquisition of property, plant and equipment	(3,616,762)	(5,532,402)
	<u>(3,615,392)</u>	<u>(5,532,402)</u>
Increase (decrease) in cash and cash equivalents	7,676,300	(12,206,656)
Cash and cash equivalents, beginning of year	18,597,333	30,803,989
Cash and cash equivalents, end of year	<u>\$ 26,273,633</u>	<u>\$ 18,597,333</u>

Supplemental disclosure of cash flow information

Cash paid during the year for:

Interest	\$ 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Company include the following:

a) *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: IMRIS, Inc (United States), IMRIS (Europe) SPRL (Belgium), IMRIS India Private Limited (India) and IMRIS KK (Japan). All intercompany transactions and balances are eliminated on consolidation.

b) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the year. Significant estimates include the percentage completion for the systems being installed, the valuation allowance relating to the future income tax assets, the useful lives of capital assets, the amortization of intangible assets, the calculation of investment tax credits receivable, the assumptions used in the determinations of stock-based compensation costs and the fair value information used for purposes of performing the annual goodwill impairment test. Actual results could differ significantly from those estimates. Changes in estimates are recorded in the accounting period in which these changes are determined.

c) *Revenue recognition*

The Company generates revenues from three principal activities: system sales, sales of ancillary products and services, and extended maintenance services.

Revenues for system sales are recognized on a percentage of completion basis as systems are installed. The degree of completion is generally determined by the ratio of actual costs incurred to date to estimated total costs. Any projected losses are recognized immediately. Funds received from customers in advance of meeting the criteria for revenue recognition are recorded as customer deposits until such time as the revenue is recognized. Revenues recognized in advance of the criteria for invoicing to the customer are recorded as unbilled receivables where the collection of the receivable is probable.

Revenues from ancillary products and services are recognized where there is persuasive evidence of an arrangement and upon delivery or as the services are rendered, respectively. Revenues from extended maintenance service agreements are recognized ratably over the life of the service agreement. Revenues from both ancillary products and services and extended maintenance service agreements are based on pre-determined or determinable sales prices and are only recognized when the collection of the receivable is probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) *Cash and cash equivalents*

Cash consists of bank deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition, and which are subject to an insignificant risk in change in value.

e) *Inventory*

Materials are valued at the lower of cost, which is determined on an average cost basis, and net realizable value. Cost of materials is determined on the basis of the invoiced value of goods. Work in progress inventories are valued at the lower of cost and net realizable value.

f) *Property, plant, and equipment*

The Company records all property, plant and equipment acquisitions at their original cost and they are amortized over their estimated useful life using the straight line method at the following rates:

Computer software	3 years
Computer equipment	3 years
Office furnishings and equipment	5 years
Assembly & test equipment	5 years
Demonstration suite & tradeshow equipment	3-5 years
Leasehold improvements	Lesser of their useful life and the term of lease
Assets under capital lease	Policy consistent with respective asset class

g) *Goodwill and patents*

Goodwill

Goodwill represents the excess of the purchase price over fair value of the identifiable net tangible assets and intangible assets purchased at the date of acquisition. Goodwill is not amortized, but rather it is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

Patents

Patents are accounted for at cost. Amortization is based on their estimated useful life which is generally the life of the patent, using the straight line method. The average remaining life of the patents at the time of acquisition in May 2005 was 11 years.

h) *Research and development expenditures*

The Company incurs costs for activities which relate to research and development of new products. Research costs are expensed as incurred. Development costs are capitalized and amortized over the expected future benefit period if they meet generally accepted accounting criteria for deferral and amortization.

No development costs were capitalized in the years ended December 31, 2009, and December 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) *Investment tax credits*

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when realization of the tax credits is reasonably certain either as an item on the statement of loss or a reduction in deferred development costs or capital assets depending on where the original costs which gave rise to the tax credits being recorded.

j) *Stock-based compensation*

The Company uses the fair value method to measure compensation expense at the date of granting of stock options to employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with the related credit recorded as contributed surplus. Upon exercise of these stock options, amounts previously credited to contributed surplus are reversed and credited to share capital. Forfeitures are accounted for as they occur.

k) *Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to be realized or settled. A valuation allowance is provided to the extent that it is not more likely than not that the future income tax assets will be realized.

l) *Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates and non-monetary assets are translated at the exchange rates prevailing when the asset was acquired.

Revenue and expenses are translated into Canadian dollars at average exchange rates for the year. Exchange gains or losses on translation of foreign currencies are included in the determination of net loss.

m) *Financial instruments*

The following is a summary of the Company's financial instruments, their classifications and measurement basis:

- Cash and cash equivalents are classified as held-for-trading and are measured at fair value with changes in fair value recognized in net income.
- Accounts receivable and unbilled receivables are classified as loans and receivables and are measured at amortized cost.
- Accounts payable and accrued liabilities and long term debt are classified as other liabilities and are measured at amortized cost.

3. CHANGES IN ACCOUNTING POLICIES

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

Goodwill and Intangible Assets

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

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 year ended 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.

4. FUTURE ACCOUNTING STANDARDS (continued)

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

	<u>2009</u>	<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

	<u>2009</u>	<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

	<u>2009</u>	<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 year ended December 31, 2009, the Company recorded inventory write-downs of \$125,000 (2008 - \$80,000).

8. PROPERTY, PLANT, AND EQUIPMENT

	<u>Cost</u>	<u>2009</u> Accumulated Amortization	Net book value	<u>Cost</u>	<u>2008</u> Accumulated Amortization	Net book value
Computer software	\$ 699,070	\$ 238,923	\$ 460,147	\$ 22,945	\$ 139,421	\$ 83,524
Computer equipment	736,119	540,187	195,932	619,888	378,454	241,434
Office furnishings & equipment	537,861	332,058	205,803	495,013	230,998	264,015
Assembly & test equipment	9,736,332	3,242,068	6,494,264	7,306,945	1,748,233	5,558,712
Demonstration suite & tradeshow equipment	1,355,952	502,495	853,457	840,792	326,063	514,729
Leasehold improvements	362,172	200,835	161,337	335,190	130,601	204,589
Assets under capital lease	32,091	20,860	11,231	32,091	14,441	17,650
	<u>\$13,459,597</u>	<u>\$5,077,426</u>	<u>\$8,382,171</u>	<u>\$9,852,864</u>	<u>\$2,968,211</u>	<u>\$6,884,653</u>

9. PATENTS

	<u>2009</u>	<u>2008</u>
Cost	\$ 484,080	\$ 484,080
Accumulated amortization	(206,044)	(160,119)
	<u>\$ 278,036</u>	<u>\$ 323,961</u>

During the year ended December 31, 2009, amortization of \$45,926 (2008 - \$44,685) relating to the patents was charged to operations.

10. OBLIGATION UNDER CAPITAL LEASE

The obligation under capital lease was repaid during the year. The lease was secured by the asset to which the capital lease relates. The lease expired in September 2009 and included an implicit interest rate of 6.6%. This rate is approximately equal to what the Company could be expected to have negotiated in the open market, as such the carrying value approximates the fair value of the debt. During the year ended December 31, 2009, the Company paid interest expense on the obligation under capital lease of \$238 (2008 - \$958).

11. CAPITAL STOCK

a) Authorized

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

b) Issued and outstanding

The issued share capital of the Company is as follows:

Common Shares	Number of Shares	Consideration
Issued and outstanding as at December 31, 2007	27,348,013	\$ 65,985,620
Stock options exercised (i)	4,500	7,200
Issued and outstanding as at December 31, 2008	27,352,513	\$ 65,992,820
Stock options exercised (ii)	32,614	56,084
Shares issued on November 2, 2009 for cash (iii) Costs relating to November 2, 2009 offering	3,697,250	20,704,600 (1,416,457)
Issued and outstanding as at December 31, 2009	31,082,377	\$ 85,337,047

- i) Pursuant to option exercises, during 2008, the Company issued 4,500 common shares to employees for cash consideration of \$6,285. In addition to the cash consideration, \$915 was transferred from contributed surplus to share capital.
- ii) Pursuant to option exercises, during 2009, the Company issued 32,614 common shares to employees for cash consideration of \$47,949. In addition to the cash consideration, \$8,135 was transferred from contributed surplus to share capital.
- iii) 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

On May 20, 2005 the Company established a stock option plan (the "Plan") for the employees, directors, officers and consultants of the Company and any of its subsidiaries which govern all options granted under the Plan. Under the Plan, options to purchase common shares of the Company may be granted by the Board of Directors. The exercise price of the options granted is established by the Board of Directors based on the fair market value of the common shares as at the date of the grant. The maximum number of common shares which may be issued pursuant to options granted under the Plan is equal to 15% of the common shares of the Company outstanding at any time.

11. CAPITAL STOCK (continued)

c) Stock-based compensation plan (continued)

Options granted under the Plan generally vest over a four year period and may be exercised in whole or in part as to any vested options prior to the expiry time as follows: 25% on or after the first anniversary of the grant date increasing 6.25% per quarter thereafter until fully vested after four years. Options expire six years after the date of the grant. The vesting of options granted under the plan ceases upon the death or the termination of employment of the participant or the participant ceases to be a director, and the participant thereafter has 90 days to exercise any vested and unexpired options, failing which any unexercised options shall lapse. The Board of Directors, at their discretion, may accelerate the vesting period of individual grants as deemed appropriate.

The Board of Directors may accelerate the vesting of all unvested options in the event of certain change of control transactions, including without limitation a take over bid, merger or other structured acquisition; and may further force the exercise of any and all vested options, and/or may cancel or replace any unvested options in any manner as the Board deems reasonable in its unfettered discretion.

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

	<u>2009</u>		<u>2008</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
Outstanding, beginning of year	3,697,226	\$2.90	3,399,300	\$2.75
Granted	413,234	4.50	485,051	4.63
Exercised	(32,614)	1.47	(4,500)	1.40
Forfeited	(69,931)	2.80	(182,625)	4.78
Outstanding, end of year	4,007,915	\$3.08	3,697,226	\$2.90

The following table summarizes the options outstanding at December 31, 2009:

<u>Year granted</u>	<u>Number of options outstanding</u>	<u>Exercise price range</u>	<u>Weighted average exercise price</u>	<u>Number of options exercisable</u>	<u>Weighted average exercise price</u>	<u>Expiry date</u>
2005	904,800	\$0.97	\$0.97	904,800	\$0.97	2011
2006	1,129,500	1.71 to 2.25	2.18	932,188	2.17	2012
2007	1,215,500	2.25 to 6.00	4.54	693,719	4.26	2013
2008	379,884	2.40 to 5.00	4.53	150,731	4.47	2014
2009	378,231	2.01 to 5.60	4.60	-	-	2015
	4,007,915	\$0.97 to \$6.00	\$3.08	2,681,438	\$2.44	

11. CAPITAL STOCK (continued)

c) Stock-based compensation plan (continued)

The company recorded an expense of \$726,042 related to stock options during the year ended December 31, 2009 (2008 - \$653,044) with a corresponding credit to contributed surplus. The fair value of option grants issued was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	2.25%	2.96%
Dividend yield	0%	0%
Expected life of the options	4.2 years	4.2 years
Expected volatility of the underlying stock	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 year ended December 31, 2009, under the Black-Scholes option pricing model, and using the above assumptions was \$2.28 (December 31, 2008 – \$2.00).

d) Contributed Surplus

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,228,193	\$ 576,065
Stock based compensation expense for the year	726,042	653,044
Amount credited to share capital related to options exercised during the year	(8,135)	(916)
Balance, end of year	\$ 1,946,100	\$ 1,228,193

e) Diluted loss per share

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. Employee stock options totaling 4,007,915 (December 31, 2008 – 3,697,226) could dilute the loss per share.

12. INCOME TAXES

a) Income tax expense

Income tax expense differs from the amount that would be computed by applying the statutory income tax rates to loss before income taxes. A reconciliation of income taxes calculated at the statutory rates to the actual tax provision is as follows:

	<u>2009</u>	<u>2008</u>
Statutory federal and provincial tax rates	31.50%	33.00%
Expected tax recovery at statutory rate	\$ (2,877,016)	\$ (5,597,755)
Permanent differences and other	266,450	201,895
Change in future Canadian tax rates	-	921,770
Non taxable foreign exchange	82,111	(56,493)
Expiry of non-capital losses	191,098	320,437
Benefit of future tax assets not recognized	2,347,357	4,210,146
Income tax expense	\$ -	\$ -

12. INCOME TAXES (continued)

b) Future income taxes

The Company has not recorded any future income tax assets in these financial statements because a valuation allowance has been provided against the full amount of the future income tax assets. The balances of future income taxes as at December 31, 2009 and December 31, 2008 represent the future benefit of unused tax losses and temporary differences between the tax and accounting bases of assets and liabilities. The major items giving rise to future income tax assets and liabilities are presented below:

	<u>2009</u>	<u>2008</u>
Non-capital losses carried forward	\$ 10,303,801	\$ 6,697,240
Capital assets	16,142	(135,208)
Intangible assets	(50,669)	(50,669)
Research and development expenditures	4,469,431	3,431,893
Reserves not taken for tax purposes	2,332,109	5,710,349
Total future income assets	17,070,814	15,653,605
Valuation allowance	(17,070,814)	(15,653,605)
Net future income tax asset	\$ -	\$ -

c) Non-capital losses

As at December 31, 2009, Company had non-capital loss carry forwards of approximately \$37,870,000 available to reduce the taxable income of future years which expire in 2025 and beyond.

d) Scientific Research and Experimental Development

The company has deductible Scientific Research and Experimental Development expenditures applicable to future years in the amount of approximately \$16,550,000. These expenditures have been included in the calculation of future income taxes in note 12 (b) and have no expiry date.

The Company also has unutilized federal and provincial scientific research and experimental development investment tax credits of approximately \$4,100,000 and \$4,900,000 respectively. The tax benefit of these investment tax credits has not been recognized in the financial statements. These credits expire in the following years:

2014	\$ 200,000
2015	500,000
2016	500,000
2017	800,000
2018	1,900,000
2019	1,000,000
2022	400,000
2023	300,000
2024	100,000
2025 and beyond	3,300,000

13. COMMITMENTS

As at December 31, 2009 the Company had commitments under operating leases requiring future minimum annual lease payments as follows:

2010	\$ 500,440
2011	256,516
2012	59,255
	<hr/>
	\$ 816,211

14. 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:

	<u>2009</u>	<u>2008</u>
North America	\$ 43,300,369	\$ 15,304,756
Asia Pacific	1,117,149	7,647,730
	<hr/>	<hr/>
	\$ 44,417,518	\$ 22,952,486

During the year ended December 31, 2009, revenues from five individual customers totalled \$30,619,856 which represents 69% of the total revenue (2008 – five individual customers accounted for \$20,168,831 or 88% of revenues). The revenues from each of those customers, individually accounted for more than 10% of the total revenue for the years ended December 31, 2009 and 2008.

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

15. 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 year ended December 31, 2009 totalled \$740,940 (December 31, 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 contracts consulting services from a company which is controlled by a director of IMRIS Inc. The amount charged to professional fees during the year ended December 31, 2009 totalled \$Nil (December 31, 2008 – \$96,000). The transactions were priced using arms length pricing and were recorded at the exchange amount. The payable balance owing as at December 31, 2009 was \$Nil (December 31, 2008 - \$Nil).

16. 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 year ended December 31, 2009 totalled \$231,064 (December 31, 2008 - \$157,426).

17. 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.

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	(4,934,103)
	<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 US dollar would result in increases/(decreases) in net earnings as follows:

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.

17. 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 year 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 year 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

18. FINANCIAL INSTRUMENTS

Fair values

The Company adopted amendments to CICA 3862, Financial Instruments – Disclosures for the year 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%).

19. 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.

20. COMPARATIVE FIGURES

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

21. 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 issued 1.6 million common shares from treasury, as consideration for the acquisition of NASL, including the technology, patents and associated intellectual property.

The transaction closed on February 5, 2010.