



## **CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

**August 5, 2010**

**(Date Issued)**



IMRIS INC.  
Consolidated Balance Sheets  
(Thousands of CDN dollars, except per share amounts)  
(June 30, 2010 Unaudited)

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 4)	\$ 20,939	\$ 26,274
Restricted cash (note 5)	207	-
Accounts receivable (note 6)	4,282	13,717
Unbilled receivables	4,809	5,202
Inventory (note 7)	3,242	3,101
Prepaid expenses	2,964	2,168
	<u>36,443</u>	<u>50,462</u>
Property, plant, and equipment (note 8)	7,228	8,382
Goodwill	6,463	6,463
Intangibles	11,230	278
	<u>17,693</u>	<u>6,741</u>
<b>Total assets</b>	<u><u>\$ 61,364</u></u>	<u><u>\$ 65,585</u></u>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,534	\$ 12,673
Customer deposits	15,549	21,051
	<u>22,083</u>	<u>33,724</u>
Shareholders' equity		
Share capital (note 9b)	96,149	85,337
Contributed surplus (note 9d)	2,395	1,946
Deficit	(59,263)	(55,422)
	<u>39,281</u>	<u>31,861</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 61,364</u></u>	<u><u>\$ 65,585</u></u>

See accompanying notes

## IMRIS INC.

Consolidated Statements of Loss and Comprehensive Loss and Deficit  
(Thousands of CDN dollars, except per share amounts)  
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Sales	\$ 16,751	\$ 9,828	\$ 29,299	\$ 14,632
Cost of sales	10,402	5,399	17,865	8,356
Gross profit	6,349	4,429	11,434	6,276
Operating expenses				
Administrative	2,108	1,774	3,976	3,248
Sales and marketing	2,526	1,964	4,281	3,668
Customer support and operations	1,386	1,217	2,578	2,282
Research and development	1,458	1,283	2,725	2,360
Amortization	888	527	1,738	1,026
Total operating expenses	8,366	6,765	15,298	12,584
Operating loss before the following	(2,017)	(2,336)	(3,864)	(6,308)
Other income (expense)				
Foreign exchange gain (loss)	146	(961)	13	(624)
Interest income	6	1	10	5
Total other income (expense)	152	(960)	23	(619)
Loss before taxes	(1,865)	(3,296)	(3,841)	(6,927)
Income taxes	-	-	-	-
Loss and comprehensive loss for the period	(1,865)	(3,296)	(3,841)	(6,927)
Deficit, beginning of period	(57,398)	(49,888)	(55,422)	(46,257)
Deficit, end of period	\$ (59,263)	\$ (53,184)	\$ (59,263)	\$ (53,184)
Weighted average number of common shares outstanding	32,870,657	27,357,294	32,489,892	27,354,890
Basic and diluted loss per share	\$ (0.06)	\$ (0.12)	\$ (0.12)	\$ (0.25)

See accompanying notes

IMRIS INC.  
Consolidated Statements of Cash Flows  
(Thousands of CDN dollars, except per share amounts)  
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (1,865)	\$ (3,296)	\$ (3,841)	\$ (6,927)
Items not affecting cash:				
Amortization	888	527	1,738	1,026
Stock based compensation	258	185	505	365
Loss on disposal of assets	-	-	-	2
	(719)	(2,584)	(1,598)	(5,534)
<b>Changes in non-cash operating working capital items</b>				
Accounts receivable	3,183	(4,961)	9,435	(10,849)
Unbilled receivables	5,092	(1,097)	393	1,955
Inventory	(160)	(198)	(141)	(886)
Prepaid expenses	(760)	153	(796)	(722)
Accounts payable and accrued liabilities	(1,548)	2,049	(6,471)	2,152
Customer deposits	(5,849)	4,115	(5,502)	6,492
	(42)	61	(3,082)	(1,858)
	(761)	(2,523)	(4,680)	(7,392)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of share capital (net)	120	20	355	20
Repayment of obligation under capital lease	-	(3)	-	(6)
	120	17	355	14
<b>INVESTING ACTIVITIES</b>				
Restricted cash	1,958	-	(207)	-
Acquisition of property, plant and equipment	(271)	(1,061)	(633)	(2,086)
Acquisition of intangibles	(18)	-	(20)	-
Acquisition costs for net assets of NeuroArm Surgical (note 10b)	(31)	-	(179)	-
Cash acquired in asset acquisition (note 10b)	-	-	29	-
	1,638	(1,061)	(1,010)	(2,086)
Increase (decrease) in cash and cash equivalents	997	(3,567)	(5,335)	(9,464)
Cash and cash equivalents, beginning of period	19,942	12,700	26,274	18,597
Cash and cash equivalents, end of period	\$ 20,939	\$ 9,133	\$ 20,939	\$ 9,133

*Supplemental disclosure of cash flow information*

Cash paid during the period for:

Interest	\$ -	\$ 1	\$ 1	\$ 4
Income taxes	-	-	-	-

See accompanying notes

## 1. DESCRIPTION OF BUSINESS

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

## 2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applicable to interim financial statements. The statements follow the same accounting policies and methods of their application as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2009, except that amounts are now expressed in thousands (except per share figures).

In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the unaudited interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The unaudited consolidated interim financial statements do not include all the disclosures required according to GAAP for annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the year ended December 31, 2009.

## 3. FUTURE ACCOUNTING STANDARDS

### *International Financial Reporting Standards (IFRS)*

In February 2008, the Canadian Institute of Chartered Accountants ("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.

### *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 Company will be limited to any future acquisitions beginning in fiscal 2011.

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

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

**3. FUTURE ACCOUNTING STANDARDS (continued)**

*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.

**4. CASH AND CASH EQUIVALENTS**

	June 30 <u>2010</u>	December 31 <u>2009</u>
Cash	\$ 5,042	\$ 7,973
Short term investments	15,897	18,301
	<u>\$ 20,939</u>	<u>\$ 26,274</u>

Short term investments consist of investments in short term bank deposits.

**5. RESTRICTED CASH**

Restricted cash consists of short-term deposits totalling \$207 (2009 - \$Nil) that have been pledged as security to our bank for letters of credit required for bid bonds on certain system installations and purchase of certain system components.

**6. ACCOUNTS RECEIVABLE**

	June 30 <u>2010</u>	December 31 <u>2009</u>
Accounts receivable, trade	\$ 4,146	\$ 13,526
Commodity taxes receivable	129	183
Interest receivable	7	8
	<u>\$ 4,282</u>	<u>\$ 13,717</u>

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

As at June 30, 2010, trade accounts receivable of \$653 were past due but not impaired. The aging of these trade accounts receivable are as follows:

	<u>Current</u>	<u>1 to 30 days past due</u>	<u>31 to 60 days past due</u>	<u>&gt; 61 days past due</u>
Accounts receivable, trade	\$ 3,493	\$ 299	\$ 297	\$ 57

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

**7. INVENTORY**

	June 30 <u>2010</u>	December 31 <u>2009</u>
Materials	\$ 2,766	\$ 2,688
Work in progress	476	413
	<u>\$ 3,242</u>	<u>\$ 3,101</u>

During the three months ending June 30, 2010, the Company recorded inventory write-downs for slow moving and obsolete inventory of \$Nil (Year to date \$125).

**8. PROPERTY, PLANT, AND EQUIPMENT**

The Company has adopted the recommendations of the CICA Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts. This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of intangible and deferred assets.

**9. SHARE CAPITAL**

*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:

<b>Common Shares</b>	<b>Number of Shares</b>	<b>Stated Capital</b>
Balance as at December 31, 2009	31,082,377	\$ 85,337
Issued for acquisition of NeuroArm Surgical Limited (note 10)	1,600,000	10,384
Issued on exercise of options during the period	267,068	428
<u>Balance as at June 30, 2010</u>	<u>32,949,445</u>	<u>\$ 96,149</u>

There are no preferred shares outstanding.

**9. SHARE CAPITAL (continued)**

*c) Stock-based compensation plan*

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

	Six months ended June 30, 2010	Weighted average exercise price
	Number of options	
Outstanding, beginning of year	4,007,915	\$3.07
Granted	400,704	6.45
Exercised	(267,068)	1.39
Forfeited	(145,241)	5.81
Outstanding, end of period	3,966,310	\$3.43

The Company recorded an expense of \$258 related to stock options during the second quarter of 2010 (2009 - \$185) and \$505 for the six months ending June 30, 2010 (2009 - \$365) with a corresponding credit to contributed surplus. No stock options were granted during the three months ended June 30, 2010. This estimate of the fair value on the date of grant used the Black-Scholes option pricing model with the following assumptions:

	Three months ended June 30,		Six months ended June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Risk-free interest rate	-	1.95%	2.57%	2.15%
Dividend yield	-	0%	0%	0%
Expected life of the options	-	4.2 years	4.2 years	4.2 years
Expected volatility of the underlying stock	-	65.06%	60.53%	47.70%

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

The weighted average fair value of stock options granted during the three and six months ended June 30, 2010, under the Black-Scholes option pricing model, and using the above assumptions was \$Nil and \$3.18 (June 30, 2009 - \$1.80 and \$1.09)

*d) Contributed Surplus*

	Six months ended June 30, 2010	Year ended December 31, 2009
Balance, beginning of year	\$ 1,946	\$ 1,228
Stock based compensation expense for the period	505	726
Amount credited to share capital related to options exercised during the period	(56)	(8)
Balance, end of period	\$ 2,395	\$ 1,946

## 10. ACQUISITION OF NEUROARM SURGICAL LIMITED

### (a) Overview

On February 4, 2010, the Company announced that it entered into a definitive agreement to acquire 100% issued and outstanding 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 was accomplished through the issuance of 1.6 million common shares from treasury and included the technology, patents and associated intellectual property. The value of the common shares was determined based on the closing trading price of the common shares of the Company on The Toronto Stock Exchange as of the closing of the transaction on February 5, 2010. The Company has issued 20% of the common shares, being 320,000 common shares placed into escrow for a period of 24 months for any claims that could be made against NASL.

### (b) Consideration and Transaction Costs

Consideration offered to complete the acquisition was 1.6 million common shares of the Company with a value of \$10,400, or \$6.50 per share. Transaction costs to complete the acquisition included legal and accounting costs of \$179 which brought the total purchase price to \$10,579.

### (c) Net Assets Acquired

The following estimated fair values were assigned to the net assets of NASL as at February 5, 2010:

Cash and cash equivalents	\$ 29
Intangibles	10,883
<b>Total Assets</b>	<b>10,912</b>
Accounts payable and accrued liabilities	333
<b>Total Liabilities</b>	<b>333</b>
<b>Total purchase price</b>	<b>\$ 10,579</b>

Intangibles, includes the valuation of the patents tied to the intellectual property acquired. The intangibles are amortized over their estimated useful lives which range between 13-18 years.

The carrying amount of the intangibles is \$10,737 as at June 30, 2010. The associated amortization expensed for the three and six months ended June 30, 2010 was \$174 and \$288.

## 11. SEGMENTED INFORMATION

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

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

	Three months ended		Six months ended	
	2010	<u>June 30,</u> 2009	2010	<u>June 30,</u> 2009
Canada	\$ 382	\$ 59	\$ 8,763	\$ 2,861
United States	9,100	9,737	11,395	11,604
Europe	10	-	353	-
Asia Pacific	7,259	32	8,788	167
	<b>\$ 16,751</b>	<b>\$ 9,828</b>	<b>\$ 29,299</b>	<b>\$ 14,632</b>

## 12. 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 included in Administrative expenses during the three months ended June 30, 2010 totaled \$46 (2009 – \$155) and \$46 for the six months ending June 30, 2010 (2009 - \$308). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at June 30, 2010 was \$Nil (December 31, 2009 - \$Nil)

## 13. DEFINED CONTRIBUTION EMPLOYEE PENSION PLAN

The Company contributes to a defined contribution Employee Pension Plan for all of its employees. Contributions to this Plan are expensed as incurred. The Company makes a matching contribution equal to 50% of the employee's contribution, to a maximum of 3% of the employee's annual remuneration (subject to regulatory maximums). These Employer contributions vest immediately with the employee. The expense for the defined contribution plan during the three months ended June 30, 2010 totaled \$60 (June 30, 2009 - \$57) and \$114 for the six months ending June 30, 2010 (2009 - \$116).

## 14. FINANCIAL RISK MANAGEMENT

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

The balances in foreign currencies at June 30, 2010 are as follows:

	<u>US Dollars</u>	<u>Euros</u>	<u>Australian Dollars</u>
Cash and cash equivalents	\$ (88)	€ 100	\$ 2,320
Accounts receivables	2,090	1,450	-
Unbilled receivables	2,437	157	617
Accounts payable and accrued liabilities	(1,294)	(1,137)	(1,403)
	<u>\$ 3,145</u>	<u>€ 570</u>	<u>\$ 1,534</u>

#### 14. FINANCIAL RISK MANAGEMENT (continued)

Based on the above net exposures as at June 30, 2010, and assuming that all other variables remain constant a 10% depreciation of the Canadian dollar or a 10% appreciation of the Canadian dollar against the various currencies would result in increases/(decreases) in net loss and comprehensive loss as follows:

	<u>US Dollars</u>	<u>Euros</u>	<u>Australian Dollars</u>
Canadian dollar depreciates 10%	\$ (335)	\$ (74)	\$ (137)
Canadian dollar appreciates 10%	335	74	137

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. 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.

b) *Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk of the Company at period end is the carrying value of its financial assets. The Company manages its credit risk on cash and cash equivalents by dealing solely with reputable banks and financial institutions. The Company's North American customers are large credit worthy medical hospitals and thus there is very little exposure to credit risk. When selling internationally, the Company uses irrevocable letters of credit to reduce its exposure to credit risk. The Company reviews the collectability of its accounts receivable and would record an allowance for doubtful accounts receivable if accounts were determined to be uncollectible. The loss would be recognized in the income statement within 'Administrative expense'. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable is uncollectible. For the three months ended June 30, 2010, revenue from four individual customers totalled \$14,743 which represents 88% of the total revenue. (June 30, 2009; two customers represented 82% of the total revenue). For the six months ended June 30, 2010, revenues from four individual customers totalled \$23,034 which represents 79% of the total revenue. (June 30, 2009; three customers represented 81% of the total revenue). The Company's June 30, 2010 receivables include balances owing from three individual customers who account for 80%, 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 June 30, 2010:

	<u>Less than 3 months</u>	<u>3 to 6 months</u>	<u>6 to 9 months</u>	<u>9 months to 1 year</u>	<u>Over 1 year</u>
Accounts payable and accrued liabilities	\$5,219	\$190	\$546	\$125	\$454

## **15. CAPITAL RISK MANAGEMENT**

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

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

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

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