



## **CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010**

**(Unaudited)**

**November 4, 2010**

**(Date Issued)**



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

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| <b>Assets</b>                                     |                       |                      |
| Current assets                                    |                       |                      |
| Cash and cash equivalents (note 4)                | \$ 12,397             | \$ 26,274            |
| Restricted cash (note 5)                          | 1,743                 | -                    |
| Accounts receivable (note 6)                      | 16,790                | 13,717               |
| Unbilled receivables                              | 3,107                 | 5,202                |
| Inventory (note 7)                                | 2,928                 | 3,101                |
| Prepaid expenses                                  | 2,809                 | 2,168                |
|   | <u>39,774</u>         | <u>50,462</u>        |
| Property, plant, and equipment (note 8)           | 6,865                 | 8,382                |
| Goodwill  | 6,463                 | 6,463                |
| Intangibles                                       | 11,041                | 278                  |
|   | <u>17,504</u>         | <u>6,741</u>         |
| <b>Total assets</b>                               | <b>\$ 64,143</b>      | <b>\$ 65,585</b>     |
| <b>Liabilities and Shareholders' equity</b>       |                       |                      |
| Current liabilities                               |                       |                      |
| Accounts payable and accrued liabilities          | \$ 10,131             | \$ 12,673            |
| Customer deposits                                 | 13,765                | 21,051               |
|   | <u>23,896</u>         | <u>33,724</u>        |
| Shareholders' equity                              |                       |                      |
| Share capital (note 9b)                           | 96,159                | 85,337               |
| Contributed surplus (note 9d)                     | 2,620                 | 1,946                |
| Deficit   | (58,532)              | (55,422)             |
|   | <u>40,247</u>         | <u>31,861</u>        |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 64,143</b>      | <b>\$ 65,585</b>     |

See accompanying notes

## IMRIS INC.

## Consolidated Statements of Income and Comprehensive Income and Deficit

(Thousands of CDN dollars, except per share amounts)

(Unaudited)

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2010 | September 30,<br>2009 | September 30,<br>2010 | September 30,<br>2009 |
| Sales  | \$ 17,289             | \$ 9,864              | \$ 46,588             | \$ 24,496             |
| Cost of sales  | 9,361                 | 5,402                 | 27,226                | 13,758                |
| Gross profit   | 7,928                 | 4,462                 | 19,362                | 10,738                |
| Operating expenses   |                       |                       |                       |                       |
| Administrative   | 1,875                 | 1,643                 | 5,851                 | 4,891                 |
| Sales and marketing  | 1,880                 | 1,601                 | 6,161                 | 5,269                 |
| Customer support and operations                              | 1,467                 | 1,161                 | 4,045                 | 3,443                 |
| Research and development                                     | 1,377                 | 1,134                 | 4,102                 | 3,494                 |
| Amortization   | 874                   | 539                   | 2,612                 | 1,565                 |
| Total operating expenses                                     | 7,473                 | 6,078                 | 22,771                | 18,662                |
| Operating income (loss) before the following                 | 455                   | (1,616)               | (3,409)               | (7,924)               |
| Other income (expense)                                       |                       |                       |                       |                       |
| Foreign exchange gain (loss)                                 | 207                   | (1,034)               | 220                   | (1,658)               |
| Interest income (expense)                                    | 69                    | (6)                   | 79                    | (1)                   |
| Total other income (expense)                                 | 276                   | (1,040)               | 299                   | (1,659)               |
| Income (loss) before taxes                                   | 731                   | (2,656)               | (3,110)               | (9,583)               |
| Income taxes   | -                     | -                     | -                     | -                     |
| Income (loss) and comprehensive income (loss) for the period | 731                   | (2,656)               | (3,110)               | (9,583)               |
| Deficit, beginning of period                                 | (59,263)              | (53,184)              | (55,422)              | (46,257)              |
| Deficit, end of period                                       | \$ (58,532)           | \$ (55,840)           | \$ (58,532)           | \$ (55,840)           |
| Basic and diluted earnings (loss) per share (note 10)        | \$ 0.02               | \$ (0.10)             | \$ (0.10)             | \$ (0.35)             |

See accompanying notes

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

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2010 | September 30,<br>2009 | September 30,<br>2010 | September 30,<br>2009 |
| <b>OPERATING ACTIVITIES</b>                                      |                       |                       |                       |                       |
| Income (loss) for the period                                     | \$ 731                | \$ (2,656)            | \$ (3,110)            | \$ (9,583)            |
| Items not affecting cash:  |                       |                       |                       |                       |
| Amortization   | 874                   | 539                   | 2,612                 | 1,565                 |
| Stock based compensation   | 226                   | 178                   | 731                   | 543                   |
| Loss on disposal of assets                                       | -                     | -                     | -                     | 2                     |
|  | 1,831                 | (1,939)               | 233                   | (7,473)               |
| <b>Changes in non-cash operating working capital items</b>       |                       |                       |                       |                       |
| Accounts receivable  | (12,508)              | 5,716                 | (3,073)               | (5,133)               |
| Unbilled receivables   | 1,702                 | (3,261)               | 2,095                 | (1,306)               |
| Inventory  | 314                   | 447                   | 173                   | (439)                 |
| Prepaid expenses   | 155                   | (323)                 | (641)                 | (1,046)               |
| Accounts payable and accrued liabilities                         | 3,596                 | (3,296)               | (2,875)               | (1,144)               |
| Customer deposits  | (1,784)               | 184                   | (7,286)               | 6,675                 |
|  | (8,525)               | (533)                 | (11,607)              | (2,393)               |
|  | (6,694)               | (2,472)               | (11,374)              | (9,866)               |
| <b>FINANCING ACTIVITIES</b>                                      |                       |                       |                       |                       |
| Proceeds from issuance of share capital (net)                    | 8                     | 12                    | 363                   | 32                    |
| Repayment of obligation under capital lease                      | -                     | (3)                   | -                     | (9)                   |
|  | 8                     | 9                     | 363                   | 23                    |
| <b>INVESTING ACTIVITIES</b>                                      |                       |                       |                       |                       |
| Restricted cash  | (1,536)               | -                     | (1,743)               | -                     |
| Acquisition of property, plant and equipment                     | (274)                 | (570)                 | (907)                 | (2,654)               |
| Acquisition of intangibles                                       | (46)                  | -                     | (66)                  | -                     |
| Acquisition costs for net assets of NeuroArm Surgical (note 11b) | -                     | -                     | (179)                 | -                     |
| Cash acquired in asset acquisition (note 11c)                    | -                     | -                     | 29                    | -                     |
|  | (1,856)               | (570)                 | (2,866)               | (2,654)               |
| Decrease in cash and cash equivalents                            | (8,542)               | (3,033)               | (13,877)              | (12,497)              |
| Cash and cash equivalents, beginning of period                   | 20,939                | 9,133                 | 26,274                | 18,597                |
| Cash and cash equivalents, end of period                         | \$ 12,397             | \$ 6,100              | \$ 12,397             | \$ 6,100              |

*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. We have developed a detailed 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 of the CICA Handbook, 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 does not believe there will be any impact on its consolidated financial statements upon the adoption of this pronouncement in fiscal 2011, unless the Company's circumstances change.

**4. CASH AND CASH EQUIVALENTS**

|                        | September 30<br><u>2010</u> | December 31<br><u>2009</u> |
|------------------------|-----------------------------|----------------------------|
| Cash                   | \$ 2,615                    | \$ 7,973                   |
| Short term investments | 9,782                       | 18,301                     |
|                        | <u>\$ 12,397</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 \$1,743 (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**

|                            | September 30<br><u>2010</u> | December 31<br><u>2009</u> |
|----------------------------|-----------------------------|----------------------------|
| Accounts receivable, trade | \$ 16,782                   | \$ 13,526                  |
| Commodity taxes receivable | -                           | 183                        |
| Interest receivable        | 8                           | 8                          |
|                            | <u>\$ 16,790</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 September 30, 2010, trade accounts receivable of \$1,859 were past due but not impaired. The aging of these trade accounts receivable are as follows:

|                            | <u>Current</u> | <u>1 to 30 days<br/>past due</u> | <u>31 to 60 days<br/>past due</u> | <u>&gt; 61 days<br/>past due</u> |
|----------------------------|----------------|----------------------------------|-----------------------------------|----------------------------------|
| Accounts receivable, trade | \$ 14,923      | \$ -                             | \$ 1,065                          | \$ 794                           |

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

**7. INVENTORY**

|                  | September 30<br><u>2010</u> | December 31<br><u>2009</u> |
|------------------|-----------------------------|----------------------------|
| Materials        | \$ 2,632                    | \$ 2,688                   |
| Work in progress | 296                         | 413                        |
|                  | <u>\$ 2,928</u>             | <u>\$ 3,101</u>            |

During the three months ending September 30, 2010, the Company recorded inventory write-downs for slow moving and obsolete inventory of \$112 (nine months ended September 30, 2010 - \$237).

**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>Share Capital</b> |
|---|-------------------------|----------------------|
| Balance as at December 31, 2009                               | 31,082,377              | \$ 85,337            |
| Issued for acquisition of NeuroArm Surgical Limited (note 11) | 1,600,000               | 10,384               |
| Issued on exercise of options during the period               | 270,818                 | 438                  |
| <u>Balance as at September 30, 2010</u>                       | <u>32,953,195</u>       | <u>\$ 96,159</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:

|                                   | Nine months ended<br>September 30, 2010 |                                    |
|-----------------------------------|---|------------------------------------|
|                                   | Number of options                       | Weighted average<br>exercise price |
| Outstanding, beginning of year    | 4,007,915                               | \$3.07                             |
| Granted                           | 400,704                                 | 6.45                               |
| Exercised                         | (270,818)                               | 1.40                               |
| Forfeited                         | (301,054)                               | 5.78                               |
| <u>Outstanding, end of period</u> | <u>3,836,747</u>                        | <u>\$3.33</u>                      |

The Company recorded an expense of \$226 related to stock options during the third quarter of 2010 (2009 - \$178) and \$731 for the nine months ending September 30, 2010 (2009 - \$543) with a corresponding credit to contributed surplus. No stock options were granted during the three months ended September 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<br>September 30, |             | Nine months ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | <u>2010</u>                         | <u>2009</u> | <u>2010</u>                        | <u>2009</u> |
| Risk-free interest rate                     | -                                   | 2.75%       | 2.57%                              | 1.72%       |
| 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 | -                                   | 64.79%      | 60.53%                             | 64.40%      |

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 nine months ended September 30, 2010, under the Black-Scholes option pricing model, and using the above assumptions was \$Nil and \$3.18 (September 30, 2009 - \$2.87 and \$1.37)

*d) Contributed Surplus*

|   | Nine months ended<br>September 30, 2010 | Year ended<br>December 31, 2009 |
|---|---|---------------------------------|
| Balance, beginning of year  | \$ 1,946                                | \$ 1,228                        |
| Stock based compensation expense for the period                                 | 731                                     | 726                             |
| Amount credited to share capital related to options exercised during the period | (57)                                    | (8)                             |
| <u>Balance, end of period</u>   | <u>\$ 2,620</u>                         | <u>\$ 1,946</u>                 |

## 10. EARNINGS (LOSS) PER SHARE

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

|   | Three months ended           |                              | Nine months ended            |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | September 30,<br><u>2010</u> | September 30,<br><u>2009</u> | September 30,<br><u>2010</u> | September 30,<br><u>2009</u> |
| Net income (loss)   | \$ 731                       | \$ (2,656)                   | \$ (3,110)                   | \$ (9,583)                   |
| Weighted –average number of common shares outstanding         | 32,951,157                   | 27,366,720                   | 32,647,073                   | 27,358,858                   |
| Dilutive effect of stock options                              | 1,520,986                    | -                            | -                            | -                            |
| Diluted weighted –average number of common shares outstanding | 34,472,143                   | 27,366,720                   | 32,647,073                   | 27,358,858                   |
| Earnings (loss ) per share                                    |                              |                              |                              |                              |
| Basic   | \$ 0.02                      | \$ (0.10)                    | \$ (0.10)                    | \$ (0.35)                    |
| Diluted   | \$ 0.02                      | \$ (0.10)                    | \$ (0.10)                    | \$ (0.35)                    |

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

For the three months ended September 30, 2010, 1,131,052 options were excluded from the calculation of dilutive earnings per share based on the treasury stock method, under which options are excluded from the calculation when their exercise price exceeds the average market price of the Company's common shares for the period.

## 11. 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.

**11. ACQUISITION OF NEUROARM SURGICAL LIMITED (continued)**

*(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 include 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 \$10,421 as at September 30, 2010. The associated amortization expensed for the three and nine months ended September 30, 2010 was \$174 and \$462.

**12. SEGMENTED INFORMATION**

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

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

|               | Three months ended |                                     | Nine months ended |                                     |
|---------------|--------------------|-------------------------------------|-------------------|-------------------------------------|
|               | <u>2010</u>        | <u>September 30,</u><br><u>2009</u> | <u>2010</u>       | <u>September 30,</u><br><u>2009</u> |
| Canada        | \$ 89              | \$ 1,212                            | \$ 8,852          | \$ 4,073                            |
| United States | 15,994             | 8,517                               | 27,388            | 20,120                              |
| Europe        | 33                 | -                                   | 387               | -                                   |
| Asia Pacific  | 1,173              | 135                                 | 9,961             | 303                                 |
|               | <b>\$ 17,289</b>   | <b>\$ 9,864</b>                     | <b>\$ 46,588</b>  | <b>\$ 24,496</b>                    |

### 13. 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 September 30, 2010 totaled \$98 (2009 – \$132) and \$144 for the nine months ending September 30, 2010 (2009 - \$440). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at September 30, 2010 was \$Nil (December 31, 2009 - \$Nil).

### 14. 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 September 30, 2010 totaled \$58 (September 30, 2009 - \$56) and \$171 for the nine months ending September 30, 2010 (2009 - \$172).

### 15. 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 September 30, 2010 are as follows:

|  | <u>US Dollars</u> | <u>Euros</u>   | <u>Australian Dollars</u> |
|--|-------------------|----------------|---------------------------|
| Cash and cash equivalents                | \$ 135            | € 1,650        | \$ 298                    |
| Accounts receivables                     | 11,028            | 51             | 5,329                     |
| Unbilled receivables                     | 1,545             | 13             | 41                        |
| Accounts payable and accrued liabilities | (2,481)           | (456)          | (7)                       |
|  | <u>\$ 10,227</u>  | <u>€ 1,258</u> | <u>\$ 5,661</u>           |

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

Based on the above net exposures as at September 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% | \$ (1,052)        | \$ (176)     | \$ (562)                  |
| Canadian dollar appreciates 10% | 1,052             | 176          | 562                       |

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 September 30, 2010, revenue from three individual customers totalled \$14,614 which represents 85% of the total revenue. (September 30, 2009; two customers represented 61% of the total revenue). For the nine months ended September 30, 2010, revenues from six individual customers totalled \$37,921 which represents 81% of the total revenue. (September 30, 2009; four customers represented 76% of the total revenue). The Company's September 30, 2010 receivables include balances owing from three individual customers who account for 59%, 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 September 30, 2010:

|  | <u>Less than 3<br/>months</u> | <u>3 to 6<br/>months</u> | <u>6 to 9<br/>months</u> | <u>9 months<br/>to 1 year</u> | <u>Over 1<br/>year</u> |
|--|-------------------------------|--------------------------|--------------------------|-------------------------------|------------------------|
| Accounts payable and accrued liabilities | \$8,291                       | \$315                    | \$754                    | \$307                         | \$464                  |