

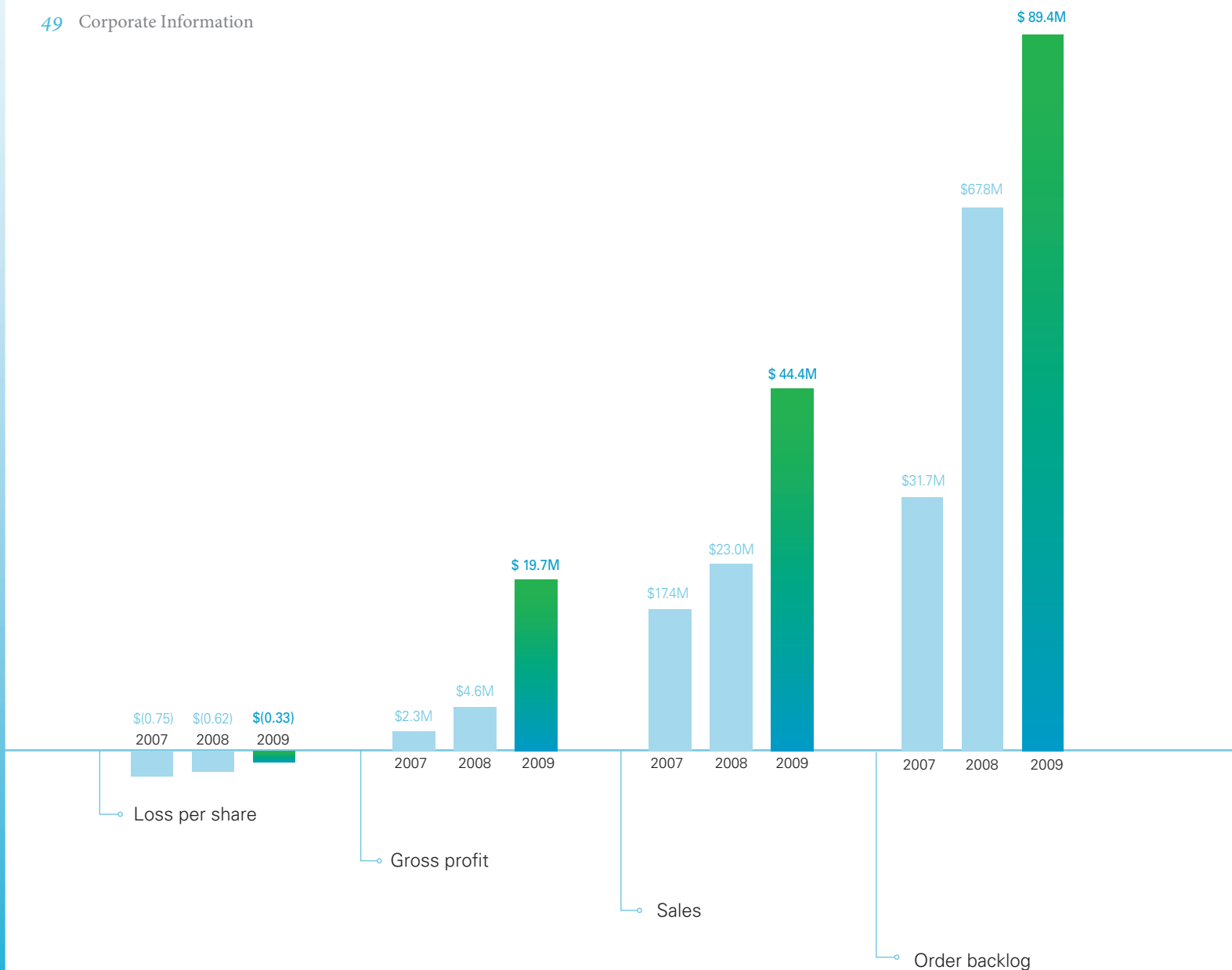


BUILDING WITH VISION

## Contents

- 1 Business Overview
- 10 Message to Shareholders
- 12 Management's Discussion and Analysis
- 30 Consolidated Financial Statements
- 33 Notes to Consolidated Financial Statements
- 49 Corporate Information

# 2009 Financial Highlights



### Forward-Looking Statements

This annual report and the accompanying Management's Discussion and Analysis ("MD&A") contain forward-looking statements about future events or future performance and reflect management's expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such statements reflect management's current beliefs and are based on information currently available to us. A number of factors could cause actual events, performance or results to differ materially from those discussed in such statements. In evaluating these statements, readers should consider various factors, including the risks outlined under "Risks and Uncertainties" in our MD&A, which may cause actual events, performance or results to differ materially from such statements. Although such statements are based on what management considers to be reasonable assumptions, there can be no assurance that actual events, performance or results will be consistent with these statements, and management's assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this annual report and we do not intend, and do not assume any obligation, to update or revise them to reflect new events or circumstances.



## MAKING A DIFFERENCE

At IMRIS, our mission is to provide image guided therapy solutions that enhance the quality of clinical procedures and improve outcomes for patients. Our application-specific solutions assist clinicians in treating neurological and cardiovascular conditions.

IMRISneuro with its unique intraoperative MR capabilities provides surgeons with critical imaging information at exactly the right time during a tumor resection to guide surgeons in removing the maximum amount of diseased tissue.

IMRIS<sub>NV</sub> gives clinicians the ability to use MR imaging to rapidly assess the damage to a stroke patient's brain, intervene to clear the blockage using angiography and then immediately confirm the treatment to ensure blood is again flowing to the brain.

IMRIScardio combines angiography and MR imaging in a fully integrated suite that can be used by clinicians treating a variety of cardiovascular disorders.

Growing numbers of brain tumor patients are benefiting from IMRISneuro at leading neurosurgical centers. Today more than 3,000 neurosurgical procedures have been completed using our system at hospitals around the world. In 2010, the first IMRIS<sub>NV</sub> and IMRIScardio sites will be actively treating patients with stroke and a range of neurovascular and cardiovascular conditions. When it comes to patient care, our customers have a clear vision for the future—and IMRIS has the image guided therapy solutions to help them achieve it.



Robert Friedberg, Vice-President of Operations  
at Central DuPage Hospital, Winfield Illinois

MAKING A DIFFERENCE IN THE US MIDWEST

# Raising the bar for neuro- oncology treatment

For Robert Friedberg and his colleagues at CENTRAL DUPAGE HOSPITAL (CDH) in Winfield near Chicago, it started in 2004 with a vision of becoming the neuro-oncology treatment center of choice in the northeast Illinois region. Diligently following a strategy of bringing together clinical experts and investing in leading-edge technology, CDH is well on its way to becoming one of the most unique cancer treatment centers in the United States.

As Vice-president of Operations at CDH, Robert has his hands full with responsibility for most of the hospital services from surgery to housekeeping. Providing strategic leadership for the neurosciences, cardiovascular and orthopedics departments, Robert

Robert recognizes that raising the bar is no small feat; rather, “it’s about changing who we are and redefining ourselves in our market”.

has a clear vision for CDH and a drive for improved patient care. CDH will become one of only two sites in the entire US offering both IMRISneuro and proton beam therapy for its neuro-oncology patients.

Robert and his clinical team believe the ability to see a tumor in the brain with the help of intraoperative MR and resect it more completely is directly related to improved patient outcomes. Five years ago when CDH first started investigating intraoperative MR imaging, the solutions to meet their requirements were not available. It was not until they learned about IMRISneuro that CDH could meet its three main objectives: intraoperative MR imaging in the surgical suite, routine diagnostic imaging and the ability to complete non-MR guided surgeries in the same suite. By the end of 2009, IMRISneuro had become an integral part of the overall vision for CDH.

Putting it all together, Robert and his team at CDH are striving to create a differential platform for neuro-oncology treatment that people will recognize and seek out over other institutions. This new platform is built on a unique combination of neurosurgeons, neuro-oncologists, and providing stereotactic radiosurgery, proton beam therapies and clinical trials that will establish CDH’s leadership in the region over the next year. Robert recognizes that raising the bar is no small feat; rather “it’s about changing who we are and redefining ourselves in our market”.





“ Developing the iMRI project was a rewarding challenge particularly because it’s in service to better patient care for the region and the community”

Tom Lorish, M.D., Medical Director of Neurosciences at Providence Brain Institute, Portland, Oregon



MAKING A DIFFERENCE  
IN THE PACIFIC NORTHWEST

# A business case behind compassionate patient care



It's gratifying to be able to improve the lives of my own patients, as well as patients I may never meet, through the programs and services I have the opportunity to help develop." says Tom Lorish, M.D., Medical Director of Neurosciences at PROVIDENCE BRAIN INSTITUTE. Caring for the poor and vulnerable is central to all things at Providence, and making good decisions based on well-conceived business plans helps Dr. Lorish and his team to provide compassionate clinical care of the highest quality to their community.

As a not-for-profit organization, PROVIDENCE's vision is to expand its market position around neurosurgical services at the BRAIN INSTITUTE and to deliver the best care in the region. Building upon their strengths in cranial-based surgery, Dr. Lorish sought out technology that would allow PROVIDENCE to better serve its industry, and turned to intraoperative MR imaging (iMRI). The value of IMRISneuro made the business case for iMRI clear in several ways. "The value is obvious to patients", said Dr. Lorish. "Telling them we know the extent of tumor resection before completing surgery is not hard to appreciate". In fact, the same message rang true for the generous donors who funded the entire project.

Not only does the new technology attract patients and community support, it will help recruit high caliber neurosurgeons and neurologists to the hospital. Dr. Lorish fully anticipates that one IMRISneuro suite will have a "multiplier effect" on patient volume.

When a surgeon joins Providence to work with the iMRI system, they will also perform non-iMRI procedures in the other ORs thereby driving up the overall case load. In this way, one technology can be leveraged to extend the breadth and raise the level of quality of the entire neurosurgical program.

From the business side, success at the Brain Institute will be measured by the growth in their clinical capability to service its patient population —more neurosurgeons and an expansion in clinical programs. From his personal perspective, Dr. Lorish said that developing the iMRI project was "a rewarding challenge particularly because it's in service to better patient care for the region and the community".



# Improving lives through research and treatment

When Alim-Louis Benabid, M.D., PhD, dreamed of a research center that would bring together the best in science and medicine to improve the lives of patients, he was ambitious. With construction targeted for completion in 2011, his dream, CLINATEC, is well on its way to becoming a reality.

Dr. Benabid has devoted his career to the development and integration of science, medicine and technology. His passion has been focused on new methods for surgery and working to shape tools that can assist surgeons improve patient outcome. Dr. Benabid is one of the champions of Clinatec—a one-of-a-kind biomedical research center in Grenoble, France. In partnership with GRENOBLE UNIVERSITY HOSPITAL and UNIVERSITY JOSEPH FOURIER, CLINATEC is dedicated to advancing micro nanotechnologies in support of developing therapeutic solutions in medicine, particularly for cerebral and neurodegenerative disorders such as Parkinson's disease and Alzheimer's disease.

Unique in the world, CLINATEC is no ordinary hospital, but rather a comprehensive research center that has committed an entire floor of its facility for surgical operating rooms and infrastructure that will be dedicated to the development of technology and therapies that improve patients' lives. Bringing together specialists in research and medicine, CLINATEC's mission will be to apply micro- and nanotechnology to improve techniques for diagnostic and therapeutic methods for a wide range of applications, including neurosurgery.

Dr. Benabid sought out IMRISneuro as an ideal solution that was consistent with both research and

treatment objectives. Like others proponents before him, Dr. Benabid recognized the unique benefits to patient safety when an MR is moved to the patient before, during or after neurosurgery. In addition, he envisioned a new level of efficiency and accuracy that could be achieved with a "head-centered set-up" of sophisticated electronic tools, sensors and recording devices that could be minimally disrupted while alternating between MR imaging and surgery. According to Dr. Benabid, "IMRISneuro is the intraoperative imaging system that fits best with our vision of CLINATEC as an interactive research and OR facility with multimodality imaging".

Dr. Benabid is always seeking to find good answers to important questions. He is particularly interested in developing brain implant technology and therapies for quadriplegic patients that will enable them to activate tools through the transmission of impulses through a brain-computer interface.

From manipulating simple tools to controlling futuristic exoskeletons through thought alone, the results of the unique combination of specialists and technology, including IMRISneuro, at CLINATEC will be life-changing for people in France and around the world.

## Combining advanced technologies in the OR

## A patient's perspective

For many years, Garnette Sutherland, M.D., has championed intraoperative MR imaging at Foothills Hospital in Calgary and helped develop innovative robotics for neurosurgery—technologies that together deliver a new standard of care and help restore the quality of his patients' lives. Foothills Hospital was the first in the world to install IMRISneuro and has now performed over 1,200 procedures in the suite. In 2008, Dr. Sutherland became the first to use an image guided robot for neurosurgery in the IMRISneuro suite.

“Robotics is the link between intraoperative imaging and surgery. Robotics combines the best that machines offer—microscopic precision and accuracy—with the best the human brain offers—the ability to anticipate” says Dr. Sutherland.

“Further, IMRIS' image guided robot works in the bore of the magnet allowing imaging without pausing activity, helping to maintain the surgeon's 'rhythm' throughout the procedure”.

Dr. Sutherland and his team strive to improve surgical outcomes by introducing patient-centric technologies that target specific challenges that remain in neurosurgery. “IMRISneuro and image guided robotics not only help us accurately identify tumors and optimize their removal, they also create a unique environment for educating and training surgeons, as well as attracting experts to our facility”.

In May 2008, Paige Nickason was selected to become the first human patient to be operated on at the Foothills Hospital with the help of the image guided robot. Despite the novel procedure, Paige was unequivocal in her trust of Dr. Sutherland, the robot and the intraoperative IMRISneuro suite. “I was convinced this was the right thing to do from the second they asked”, said Paige.

For Paige, living with her disease means more surgeries to remove more tumors, so minimizing side effects is important. In her opinion, surgery with the robot resulted in noticeably less facial

swelling and a speedier recovery time—important factors for an active mother maintaining a career. Further, the golf ball-sized brain tumor removed with the robot had significantly

affected her olfactory nerve: “I work in a kitchen so smell is really important to me”, says Paige. “The surgery saved my sense of smell and allowed me to keep working”.

Today, Paige remains a staunch supporter of the robot for neurosurgery and offers encouragement to anyone else that faces decisions like hers. “Other patients have asked me to help them get 'on the program' at Foothills but that's not up to me. I am just glad I took the opportunity to have that surgery when I had the chance”.





Garnette Sutherland, M.D., Division of Neurosurgery, Foothills Hospital, Calgary, Alberta sits with Paige Nickason—first patient operated on with an image guided robot in the IMRISneuro suite



## BUILDING WITH VISION

# Message to shareholders

Over the last year we continued to build on our vision of being the leading vendor of Image Guided Therapy Solutions that make a difference in the lives of patients. Our focus on delivering solutions into the hands of clinicians who are treating patients with serious medical disorders is the driving force behind the innovation and quality that underlay everything that we do.

### 2009 in Review

We have created and delivered high value solutions to the neurosurgical, neurovascular and cardiovascular markets resulting in the attainment of short term goals in 2009, while at the same time building a strong foundation for the middle and longer term.

In 2009 we effectively doubled our revenues to \$44 million and delivered our third consecutive year of growth. We also achieved our first ever quarterly earnings in the fourth quarter of the year as a result of our commitment to the effective execution of our business model.

Our backlog continued to increase as we delivered our fourth straight year of double digit growth in orders from customers. At \$90 million, our backlog represents a clear statement as to the value that our systems represent to hospitals and the patients that they treat on a daily basis.

Our systems are in operation around the world and are used to treat patients every day. We have sold systems in the US, Canada, Europe, India, China and Australia and we have established sales and service capacity in those countries so as better serve our current customers and develop new relationships to broaden our markets.

We also took steps in 2009 to strengthen our balance sheet by completing an equity financing that raised \$20.7 million and will ensure our ability to run a robust long term company. Our customers demand technical and financial strength, we now have both.

### *Our Image Guided Therapy Solutions Offer Value to Patients, Clinicians, and Hospitals*

Our systems are designed around the concept that the patient is never moved and that all of the technology required to achieve the surgical or interventional goal is brought to the patient. The patient is maintained in a safe, optimum position throughout the procedure.

Likewise, our systems are designed to enhance the efficiency of the operating room and to provide high value, timely information to the clinical team in a manner that does not take away from the routine of the suite.

Finally, the ability of the imaging assets to be used in multiple operating rooms, in addition to a diagnostic suite provides a compelling financial model for the use of scarce capital dollars in a hospital. With a single system, hospitals can meet the needs of neurosurgery, interventional neurology, cardiology and diagnostic imaging.

### *Innovation as an Enabling Force*

Our flagship product, IMRISneuro, is the leading image guided solution for intraoperative imaging in the market. Through the year we continued to enhance the system with the addition of novel patient handling systems and higher levels of software integration and capability. We have a strong pipeline of innovative improvement and additions to IMRISneuro that we believe will bolster the market leading position and its value proposition to hospitals.

In the fall of 2009 we launched IMRIS<sub>NV</sub> for the management of stroke and other neurovascular conditions and IMRIS<sub>Scardio</sub> for the interventional cardiovascular market. Given the prevalence of these disorders, we believe our new products, which integrate MR and angiography into an interventional

suite, offer tremendous value for clinicians and facilitate rapid and efficient treatment. Initial customer response has been very favourable with three of the new systems purchased before the end of last year.

Early in 2010, we acquired NeuroArm Surgical Limited and its magnetic resonance-compatible neurosurgical robot. This exciting technology, which is already being used in a clinical trial to perform surgery, combines the exquisite imaging of MR with the precision of surgical robotics and represents an excellent opportunity to deepen our portfolio of image guided therapy solutions.

#### *Continuing to Build a High Impact Leadership Team*

Developing a global leadership team is a key factor in our ability to execute against our business model. During the year we expanded the depth and breadth of our team with the creation of a President and COO position, as well as General Manager positions for each of our primary market regions.

At the end of 2009, we announced that Ed Richmond, the outstanding leader of our Customer Solutions team, would take the reins of the President and COO role. Peter Richards was appointed to lead the Americas, Hartmut Warnken is heading up Europe and Ning Ke is leading China. These strong additions to the leadership team continue to increase our ability to grow our business at a strong pace.

#### **The Outlook for our Company**

We have a vision of being the leading vendor of image guided therapy solutions on a global basis. We will continue to drive innovation as a way of life across all aspects of our business, from sales and marketing to operations and product development. Everyone in our company contributes to innovation as an enabling force that moves us forward.

We have always had a complete commitment to quality and regulatory compliance as a fundamental part of our culture. Our dedication to these issues is supported by tangible programs that ensure current adherence and continuous improvement in all our groups and products.

As we move forward, we will continue to operate in a growth oriented manner to increase our backlog and our top line performance as that will set the stage for the future. In doing that we will manage our expenses and our balance sheet to ensure we have the financial strength to build our business and to be able to take advantage of opportunities in the market to step function our growth.



Our company grows and prospers due to the talents and passion of all of our employees. Every member of our team has the ability and desire to make a difference in the lives of patients every day and that is what drives our behavior. I want to thank our employees for their contribution over the past year, our Directors for their thoughtful guidance and our shareholders for the confidence that they have entrusted with us.

All of us at IMRIS look forward to continuing to build on the vision: delivering high quality, high value image guided therapy solutions that make a difference in the lives of patients.

H. David Graves  
Chairman & CEO

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management Discussion and Analysis ("MD&A") is dated as at February 26, 2010 and should be read in conjunction with the annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2009. In this MD&A, "IMRIS", the "Company", "we", "our" and "us" are used to refer to IMRIS Inc.*

*This MD&A contains forward-looking statements about future events or future performance and reflects management's expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, statements regarding our future operating results, economic performance and product development efforts are or involve forward-looking statements.*

12 | *A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors which could cause future outcomes to differ materially from those set forth in the forward-looking statements include, but are not limited to: [i] timing and amount of revenue recognition of order backlog and the Company's expectation of sales and margin growth [ii] obtaining sufficient and suitable financing to support operations and commercialization of products, [iii] adequately protecting proprietary information and technology from competitors, [iv] obtaining regulatory approvals and successfully completing new product launches, [v] successfully competing in the targeted markets, and [vi] maintaining third party relationships, including key personnel, and key suppliers. In evaluating these forward-looking statements, readers should specifically consider various factors, including the risks outlined under "Risks and Uncertainties", which may cause actual events, performance or results to differ materially from any forward-looking statement.*

*Readers are cautioned that our expectation, beliefs, projections and assumptions used in preparation of such information, although considered reasonable at the time of preparation, may prove to be wrong, and as such, undue reliance should not be placed on forward-looking statements. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties so as a result, we can give no assurance that any of the actual events, performance, results, or expectations will occur or be realized. These forward-looking statements are expressly qualified by this cautionary statement as of the date of this MD&A and we do not intend, and do not assume any obligation, to update or revise them to reflect new or future events or circumstances.*

## OVERVIEW

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

### Our Products

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

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

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

### Our Customer Value Proposition

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

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

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

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

### Our Technology

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

Underlying all of our image guided therapy solutions is advanced proprietary technology and intellectual property that we have developed as part of our unique solutions. The protection of these products, our processes and know-how is integral to our business. We have patents in place in the United States, Canada and other countries where available to protect our core patent family. In addition, we have filed a number of additional patent applications

that are directed to specific aspects of our technology. We currently have 20 patents either issued or pending. As we develop our technologies we will continue to seek patent protection to contribute to our competitive advantage.

### Our Business Model

The purchase and installation of an IMRIS system represents a significant capital project for our customers that can range from approximately \$4 million to \$12 million. In addition to our equipment, customers may require further capital expenditures for room construction and ancillary operating room equipment. The sales cycle for our systems is both complex and lengthy as a result of the large capital expenditure associated with the purchase of an IMRIS system and the number of stakeholders who are engaged in the process. As such, a typical sales cycle can be more than 12 months from initial customer engagement to receipt of a purchase order. Following the receipt of a customer purchase order, the delivery and installation cycle for one of our systems typically ranges from five months to twelve months or more depending in part on the configuration of our system, but also dependent on the amount of additional construction work that may be required to be completed by the customer. We invoice customers for the system in installments spread over a number of milestones which typically include a deposit at the time of order; and a percentage of the total system price upon delivery of the equipment, completion of installation and final acceptance. Due to the project nature of our system sales, we recognize revenues and related cost of sales on a percentage-of-completion basis as the system is installed.

## 2009 HIGHLIGHTS

Throughout 2009 we made solid progress advancing our business strategies and delivering strong financial performance. Highlights from the year included:

- Record sales of \$44.4 million, the highest annual sales in the history of the Company and a 94% increase over 2008.
- Gross profit as a percentage of sales improved to 44% compared with 20% in 2008.
- In the fourth quarter, recorded positive EBITDA and net income for the first time in our Company's history at \$1.4 million and \$0.4 million respectively. EBITDA is defined as

earnings before interest income (expense), foreign exchange gain (loss) income taxes and amortization.

- Completed an equity financing that closed on November 2nd 2009 for net proceeds of \$19.3 million.
- Record annual order bookings of \$73.1 million contributing to 32% year over year growth in order backlog, which increased to \$89.4 million at year end.
- Received regulatory approval with the issuance of a European CE Mark in April 2009, U.S. FDA approval in September 2009 and the Health Canada medical device license in October 2009 permitting the sale of our new products, IMRIS<sub>NV</sub> and IMRIS<sub>cardio</sub>.
- At the end of 2009, we had sold 35 systems with sales in the United States, Canada, Asia Pacific and Europe. Of particular note in the year:
  - » Brigham and Women's Hospital, which is home to the US National Center for Image Guided Therapy was the first to purchase an IMRIS<sub>NV</sub>/IMRIS<sub>cardio</sub> solution.
  - » Yale-New Haven Hospital, the primary teaching hospital for the Yale School of Medicine purchased IMRIS<sub>NV</sub>.
  - » We sold our first IMRIS<sub>NV</sub> system in Canada to Health Sciences Center Winnipeg.
  - » The first IMRIS<sub>neuro</sub> sale in Europe was made to CEALITI for CLINATEC® in Grenoble, France.
- A renewed and expanded OEM agreement between IMRIS and Siemens Healthcare for the supply of MR scanners and angiography systems as component parts for IMRIS's image guided therapy suites was completed in the fourth quarter of 2009.
- We realigned our organizational structure in the fourth quarter of 2009 to meet the growing global demand for IMRIS solutions.

## SUMMARY OF SELECTED FINANCIAL INFORMATION

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

<b>Statement of Operations</b>			
(In CDN dollars) (Unaudited)	Year ended December 31		
	2009	2008	2007
Sales	\$ 44,417,518	\$ 22,952,486	\$ 17,445,058
Cost of sales	24,748,219	18,344,182	15,180,438
Gross profit	19,669,299	4,608,304	2,264,620
As a percentage of sales	44.3%	20.1%	13.0%
Operating expenses			
Administration	6,706,411	6,807,248	5,300,845
Sales and marketing	8,039,705	6,450,458	3,497,318
Customer support and operations	4,950,479	3,930,270	3,899,824
Research and development	4,923,818	4,705,505	3,334,511
Amortization	2,161,959	1,457,035	940,632
	26,782,372	23,350,516	16,973,130
Operating income (loss) before the following	(7,113,073)	(18,742,212)	(14,708,510)
Foreign exchange (loss) gain	(2,025,355)	1,118,553	(84,228)
Interest (expense) income	(26,705)	660,767	222,545
Net loss	\$ (9,165,133)	\$ (16,962,892)	\$ (14,570,193)
Basic and fully diluted loss per share	\$ (0.33)	\$ (0.62)	\$ (0.76)

### Balance Sheet Data

Cash and cash equivalents	26,273,633	18,597,333	30,803,989
Total assets	65,583,833	39,848,770	48,649,231
Customer deposits	21,050,029	12,647,883	7,135,834
Long-term debt	-	-	8,624
Total liabilities	33,722,555	18,884,493	11,381,390
Shareholders' equity	31,861,278	20,964,277	37,267,841

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

- The general trend has been for strong growth in sales over the years as the Company has achieved increased market acceptance. As a result of the limited number of systems sold

and installed to date and the high dollar value associated with each sale, our revenues recorded from quarter to quarter have varied depending on the number and stage of active projects in any given quarter.

- Gross profit has improved significantly with increased sales volumes and higher pricing. Our initial pricing strategy was market penetration based. As product recognition and adoption

occurred we increased our pricing to reflect the underlying value of IMRIS systems. This change has resulted in improved gross profit as a percentage of sales particularly comparing the 2008 results with those achieved in 2009.

- Net losses have generally decreased from 2007 to 2009. We achieved our first quarter of net income in Q4 2009. The improvements over time reflect the increases in gross profit described above, controlled increases in operating expenses to meet growth in the business and foreign exchange gains and losses.
- Most of our sales to date have been denominated in currencies other than the Canadian dollar which can give rise to foreign exchange gains or losses depending on the change in value of the Canadian dollar versus other currencies in each quarter. In 2007, the Canadian dollar weakened against the US dollar. For most of 2008, the relative value of the Canadian dollar versus the US dollar resulted in the recording of foreign exchange gains. In the last three quarters of 2009, we incurred foreign exchange losses primarily as a result of changes in the relative values of these two currencies.
- On November 2, 2009 we completed an equity financing with the issuance of 3,215,000 common shares and an additional 482,250 common shares granted as an over-allotment option, resulting in net proceeds of \$19.3 million. With completion of the financing, our total number of shares outstanding increased compared with prior years.

## Results of Operations

### Sales

Sales increased to \$44.4 million from \$23 million in the prior year, an increase of 93.5%. Revenue growth for the year ended December 31, 2009 is the result of increased systems deliveries in 2009 and a significant increase in the average revenue per system in the 2009 period due to favourable product mix, including delivery of our first IMRIS<sup>NV</sup> system.

Sales for the year ended December 31, 2009 included \$42.7 million of revenues associated with new system deliveries and \$1.7 million of revenues associated with extended maintenance contracts. This compares to \$22.2 million of new system sales and \$0.8 million in extended maintenance contracts for the same period in the prior year.

### Gross Profit

Gross profit for the year ended December 31, 2009 increased by approximately \$15.1 million to \$19.7 million, as compared to the prior year. Gross profit as a percentage of sales increased from 20.1% to 44.3% for the year ending December 31, 2009. The growth in gross profit is the result of a change in the pricing strategy reflecting the increasing customer acceptance of our technology. We have also seen improved margins as a result of our efforts to reduce the direct costs of our systems.

### Operating Expenses

Operating expenses for the year were \$26.8 million an increase of approximately \$3.4 million or 15% from \$23.4 million in the prior year. The increase is primarily a result of increased costs in sales and marketing and customer support and operations. Sales and marketing increased in the year mainly due to the launch of the IMRIS<sup>NV</sup> and IMRIS<sup>Scardio</sup> systems as well as higher wages and benefits associated with increased staff levels to support future sales growth. Customer support and operations increased in the year primarily as a result of increased staff to support the increased system delivery volume. Year to date amortization expense was significantly higher as a result of additional research and development equipment being placed into use and being amortized over its useful life.

At the departmental level, administrative expenses decreased to \$6.7 million from \$6.8 million in the prior year or a 1% decrease. Although year to date amounts did not change in total in comparison to prior year, the department did experience an increase in travel expenses and a small increase in wages and benefits offset by a decrease in professional fees and consulting fees.

Sales and marketing expenses for the year increased to \$8.0 million from \$6.5 million in the prior year for a 25% increase. The year to date increases are mainly due to launch costs for the IMRIS<sup>NV</sup> and IMRIS<sup>Scardio</sup> systems and higher staffing levels and related costs to support future sales growth.

Customer support and operations expense for 2009, increased to \$5.0 million from \$3.9 million in the prior year or a 26% increase. The year to date increase is mainly attributed to an increase in wages and benefits associated with additional staff to support the higher system volume delivered in the year. The department also

had a small increase in 2009 for professional fees associated with obtaining regulatory approvals for our products.

Research and development expenses for the year increased to \$4.9 million from \$4.7 million in the prior year, or a 5% increase. The year to date increase is primarily due to an increase in staff levels for the full year and additional costs relating to filing new patent applications.

Amortization expense for 2009 was \$2.2 million compared to \$1.5 million in the prior year, a 48% increase. The year to date increase in amortization expense resulted from the commencement of amortization on capital additions to our research and development test facility.

The company had a foreign exchange loss of \$2.0 million compared to a foreign exchange gain of \$1.1 million the prior year. The foreign exchange loss year resulted from the decrease in value of the US dollar relative to the Canadian dollar. The majority of the Company's sales are denominated in US dollars; as such we held US dollar denominated net assets during the period which were negatively impacted as the US dollar weakened against the Canadian dollar.

Interest income (expense) decreased by approximately \$0.7 million as compared to the prior year. This was due to extremely low yields on short-term money market instruments, lower average cash balances and interest expense relating to a provincial sales tax reassessment.

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

The Company's operating loss for 2009 was \$7.1 million compared to \$18.7 million in the prior year, a 62% improvement. The year over year improvements are due primarily to increased sales volume and higher gross profit margins offset in part by additional operating expenses to fund the growth in the business.

Our net loss for the year ended December 31, 2009 was \$9.2 million, a decrease of \$7.8 million compared to the loss of \$17.0 million in 2008, an improvement of 46%. The improvement was mainly due higher sales volume and improved gross margins offset in part by higher foreign exchange losses and lower interest income.

#### *EBITDA*

In the fourth quarter of 2009 we delivered our first quarter of positive EBITDA at \$1.4 million compared with negative \$4.3 million in the fourth quarter of 2008. For the year ended December 31, 2009, EBITDA was negative \$5.0 million compared with negative \$17.3 million in 2008. The improvements in EBITDA in both the fourth quarter and full year 2009 were primarily due to increased sales volumes and higher gross profit margins, net of higher cash operating expenses used to fund growth in the business. We have begun reporting EBITDA because we believe investors use it as another measure of our operating performance.

## SUMMARY OF QUARTERLY RESULTS

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

(In CDN dollars) (Unaudited)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Sales	19,921,667	9,863,709	\$9,827,863	\$4,804,279	\$5,733,845	\$4,869,433	\$8,191,072	\$4,158,136
Cost of sales	10,991,504	5,401,780	5,398,467	2,956,468	4,312,698	3,541,973	6,733,398	3,756,113
Gross Profit	8,930,163	4,461,929	4,429,396	1,847,811	1,421,147	1,327,460	1,457,674	402,023
As a percentage of sales	44.8%	45.2%	45.1%	38.5%	24.8%	27.3%	17.8%	9.7%
Operating expenses								
Administration	1,814,853	1,642,702	1,774,512	1,474,344	1,718,663	1,733,936	1,613,014	1,741,635
Sales and marketing	2,770,288	1,601,483	1,963,812	1,704,122	1,741,730	1,747,905	1,638,278	1,322,545
Customer support and operations	1,507,042	1,161,209	1,216,876	1,065,352	955,378	1,021,536	1,041,746	911,610
Research and development	1,430,109	1,133,412	1,282,928	1,077,369	1,271,654	1,419,993	1,110,014	903,844
Amortization	596,724	539,392	527,106	498,737	503,793	432,931	269,613	250,698
	8,119,016	6,078,198	6,765,234	5,819,924	6,191,218	6,356,301	5,672,665	5,130,332
Operating profit (loss) before the following	811,147	(1,616,269)	(2,335,838)	(3,972,113)	(4,770,071)	(5,028,841)	(4,214,991)	(4,728,309)
Foreign exchange (loss) gain	(367,747)	(1,033,741)	(960,663)	336,796	880,516	230,763	(45,218)	52,492
Interest income (expense)	(25,633)	(6,096)	754	4,270	74,463	118,060	196,939	271,305
Net income (loss) for the quarter	\$ 417,767	\$(2,656,106)	\$(3,295,747)	\$(3,631,047)	\$(3,815,092)	\$(4,680,018)	\$(4,063,270)	\$(4,404,512)
Earning (loss) per share								
Basic	\$ 0.02	\$ (0.10)	\$ (0.12)	\$ (0.13)	\$ (0.14)	\$ (0.17)	\$ (0.15)	\$ (0.16)
Diluted	\$ 0.01	(0.10)	(0.12)	(0.13)	(0.14)	(0.17)	(0.15)	(0.16)

The financial results for the eight most recent quarters reflect the progression of an early stage Company with a limited operating history. Factors that have caused our quarterly results to vary are generally consistent with the factors described in the 3 year in the Summary of Selected Financial Information section above.

## ORDER BACKLOG

During the year, we received record order bookings of \$73.1 million, contributing to order backlog of \$89.4 million at December 31, 2009. The change in the Company's order backlog was impacted by delivering record revenues of \$44.4 million and a \$7.1 million reduction in the value of the backlog due to the appreciation of the Canadian dollar versus the US dollar. The annual orders are composed of 10 new customer orders and three upgrades of existing orders. This includes our first order from Europe, which represents a significant new market for the company. We continue to convert past order backlog to recognized revenue and we are reasonably confident that we will convert our present order backlog to recognized revenue going forward.

To date, we have sold 35 systems, 19 of which are installed and 16 of which are in the delivery phase. Of the 35 systems sold, 25 are in the United States, 5 are in Canada, 4 systems are in Asia Pacific and 1 system has been sold in Europe.

Order backlog is defined as the unrecognized portion of the revenues anticipated to be recorded from confirmed system orders, including the next twelve months of revenues to be derived from executed service contracts.

## ACQUISITION OF NEUROARM SURGICAL LTD.

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

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

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

## OUTLOOK

When our Company was formed in 2005, our initial focus was on gaining market acceptance for IMRISneuro and ensuring the successful delivery of each customer installation as we developed our core competencies across all facets of the organization. Today, IMRISneuro has become the solution of choice and is installed in leading neuroscience centers around the world. We have broadened our market opportunity with the recent introduction of IMRIS<sub>NV</sub> and IMRIS<sub>cardio</sub> and continue to leverage our technology platforms and core competencies in support of bringing new application-specific solutions to market. All of which we have achieved while carefully controlling costs in support of achieving positive earnings as quickly as possible – a milestone we reached in the fourth quarter of 2009.

### 2010 Corporate Priorities

Our corporate priorities for 2010 reflect a disciplined approach to advancing our business in support of delivering continuing strong growth and value-creation. Our 2010 corporate plans include:

**Focus on Major Market Opportunities** — IMRIS systems have been purchased by medical facilities in regions around the world including the United States, Canada, India, China, Australia and France. In 2010 we plan to focus our sales and marketing resources on North America, Europe and China. We have aligned our organization structure and resources to reflect this approach and established regional organizations in each of these markets to move decision-making as close as possible to the customer. We believe by expanding our presence in Europe and China and focusing most of our efforts on these two markets and on North America, that there is significant opportunity to capitalize on. Other geographic markets will continue to be addressed as emerging market opportunities.

**Build Capacity and Capability** — We have a strong track record of meeting our installation schedules and ensuring customer satisfaction. In 2010 we plan to build additional capacity and capability across the Company to ensure we meet our customer commitments and financial objectives. In 2009 our revenues for system deliveries increased 94% and given our 2009 year end backlog, we expect a significant increase in backlog conversion again this year. To meet this anticipated growth, we are planning to expand our sales and customer support resources to ensure we manage the expected ongoing growth in our business effectively.

**Strengthen our Product Portfolio** — Since first coming to market, we have expanded our product portfolio to include IMRIS<sub>Nv</sub> and IMRIS<sub>cardio</sub>. Our recently announced acquisition of NASL and its MRI compatible neurosurgical robot system builds on the Company's vision to deepen the offering of its image guided solutions. The Company's collaboration with MacDonalD Dettwiler, a world leader in robotics, to create the next generation of the technology, provides the Company with a number of potential applications for medical practitioners. In 2010 our efforts will be concentrated on research and development programs that further enhance the value of our three products. We will also continue to advance the development of our longer term initiatives for radiation and interventional therapies including new robotics systems.

**Control Costs and Operate Profitably** — We are committed to continuing to invest prudently in our business to capture the growth potential we believe exists for IMRIS's image guided therapy solutions. In 2010 we will work to harden product lines and control costs in support of overall growth in profitability.

## 2010 Financial Outlook

We are expecting a strong year of growth in 2010 as we advance our business plan and execute on our corporate priorities. Order flow is expected to build on the positive trends in 2009 as market demand for IMRIS systems continues to expand. Net of increased operating expenses to support expansion of the business, we expect to generate a growing operating income profile through the year.

Given our growth in backlog in 2009, we expect to continue to convert our backlog into revenues at a higher rate than historical trends. As we move through the year, our focus will be on advancing customer installations in support of converting orders into recognized revenues. Our ability to complete installations is highly dependent on the readiness of customer sites which are often part of a larger hospital construction project. As a result, we can experience delays in our delivery schedule which are beyond our control resulting in an unbalanced quarterly revenue profile. While we do not control our customers' broader construction schedules, through our active involvement in managing each customer program we continue to work to minimize the potential for delays and shorten the delivery cycle of those elements that are within the Company's control.

Gross profit as a percentage of sales increased in 2009 to 44% as a result of pricing increases we implemented together with efforts to reduce direct costs of our systems. In 2010, we expect full year gross profit as a percentage of sales to be comparable to 2009 levels. Some quarterly variability is expected including reduced margins in the first quarter of the year due to an installation of our first IMRIS<sub>Nv</sub>/IMRIS<sub>cardio</sub> system. While some erosion on margin may occur related to exposure to a weakening U.S dollar, we believe this can be offset as part of our focus on incrementally reducing component costs through various cost reduction and sustaining engineering programs in 2010.

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

We have significant balance sheet strength with cash and receivables totaling \$40 million at December 31, 2009. This together with anticipated positive cash flow from operations in 2010 as well as cash from customer deposits on future orders is expected to provide sufficient liquidity to fund our operations and planned projects through the year.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal capital needs are for funding scientific research and development programs, supporting our sales and marketing activities and funding capital expenditures and working capital. The Company has financed its cash requirements primarily through issuances of securities and customer deposits from new orders.

We had cash or cash equivalents of \$26.3 million as at December 31, 2009, an increase of \$20.2 million from September 30, 2009 and an increase of \$7.7 million from December 31, 2008. The increase from December 31, 2008 primarily resulted from the issuance of shares for \$19.3 million offset by the cash operating loss of \$6.3 million, an increase in working capital of \$1.7 million and capital spending of \$3.6 million.

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

#### Statements of Cash Flows

(In CDN dollars)  
(Unaudited)

	Year ended December 31		
	2009	2008	Change
Cash flows:			
Used in Operating Activities	\$ (8,035,775)	\$ (6,458,088)	\$ (1,577,687)
From (used in) Financing Activities	19,327,467	(216,166)	19,543,633
Used in Investing Activities	(3,615,392)	(5,532,402)	1,917,010
Net increase (decrease)	7,676,300	(12,206,656)	19,882,956
Cash and cash equivalents, opening	18,597,333	30,803,989	
Cash and cash equivalents, closing	\$ 26,273,633	\$ 18,597,333	\$ 7,676,300

#### Operating Activities

The cash used from operating activities for the current year was \$8.0 million. The cash used in 2009 was comprised of the operating loss (excluding non-cash related items) of approximately \$6.3 million and \$1.7 million increase in working capital. This increase in working capital is made up of an increase in receivables (\$14.5 million), an increase in inventory (\$1.0 million) and an increase in prepaid expenses (\$1.0 million) offset by a decrease in accounts payables and accruals (\$6.4) and an increase in customer deposits (\$8.4 million).

#### Financing Activities

The cash generated in financing activities for the current year was \$19.3 million. 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. The Company incurred approximately \$1.4 million in costs associated with the offering.

Proceeds of the offering will be used for working capital and general corporate purposes.

#### Investing Activities

The cash used in investing activities for the year ended December 31, 2009 was approximately \$3.6 million. All of the investing activities are for capital equipment purchases. During the current year, capital purchases included; research and development equipment (\$2.2 million), a new enterprise resource planning (ERP) software system (\$0.4 million), a new trade show booth (\$0.5 million) and miscellaneous office and computer equipment (\$0.5 million).

Capital expenditures for 2010 are expected to be in the range of \$1.0 to \$1.5 million for computer hardware and software and office equipment to support our increased staff levels.

#### Liquidity and Capital Resources Summary

Our cash and cash equivalents as at December 31, 2009 totaled \$26.3 million. This cash position and our expectation that we will generate positive cash flow from operations including the customer deposits on future orders, is expected to provide sufficient liquidity to meet the anticipated needs of ongoing operations and existing projects including the funding of current research and development programs and budgeted capital asset expenditures.

## CONTRACTUAL OBLIGATIONS

### Lease Commitments

The Company has lease commitments in respect of operating leases as set out below:

2010	\$	500,440
2011		256,516
2012		59,255
Total	\$	816,211

## OUTSTANDING SHARE DATA

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

	Authorized	February 26, 2010	December 31, 2008
Common shares	unlimited	\$92,121,047 (32,682,377 common shares)	\$65,992,820 (27,352,513 common shares)
Preferred shares	unlimited	Nil	Nil
Contributed surplus		\$1,946,100	\$1,228,193

As at February 26, 2010 a total of 4,015,240 stock options were outstanding under the Company's stock option plan.

## NON-GAAP FINANCIAL MEASURES

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

A reconciliation to the most comparable GAAP measures is as follows:

	Three months ended		Twelve months ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Operating income (loss)	\$ 811,147	\$ (4,770,071)	\$ (7,113,073)	\$ (18,742,212)
Amortization	596,724	503,793	2,161,959	1,457,035
EBITDA	\$ 1,407,871	\$ (4,266,278)	\$ (4,951,114)	\$ (17,285,177)

## FINANCIAL INSTRUMENTS

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

We are subject to credit risk with respect to our accounts receivable and unbilled receivables to the extent debtors do not meet their obligations and we are subject to foreign exchange risk with respect to financial instruments denominated in a currency other than the Canadian dollar.

Our short-term investments at December 31, 2009 were \$18.3 million and were invested in interest bearing saving accounts and short term bank deposits. Of this total, \$0.2 million was denominated in US dollars.

Our accounts receivable at December 31, 2009 were \$13.7 million, of which \$12.6 million is considered current (less than 60 days old). Accounts receivable include \$12.9 million that are denominated in US dollars.

## RELATED PARTY TRANSACTION

The Company leases air travel time from 5343381 Manitoba Ltd., a company which is wholly owned by Centara Corporation, a corporation controlled by our Chairman. The amount charged to travel expenses with respect to transactions conducted on an estimated third party comparable cost basis with this related party during the year ended December 31, 2009 was \$740,940 (2008 - \$382,832).

As at December 31, 2009, the balance payable to this related party was \$Nil versus \$41,580 as at December 31, 2008.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Among the accounting estimates described in the notes to the financial statements, we consider the accounting estimates used in the determination of recognized revenues, the

value of goodwill and the valuation of stock options to be critical. Our results as determined by actual events could differ materially from the previously mentioned estimates.

### Revenue Recognition

We recognize revenues for our system sales on a percentage-of-completion basis as the system is installed. The percentage-of-completion is determined by the ratio of actual costs incurred to date to the estimated cost of completion for the project. In the event that the actual costs of completion differ from the estimated cost we have used in determining the percentage-of-completion, recognized revenues may be over or under-estimated until all costs have been incurred and the project is complete. Funds received from our customers in advance of meeting the criteria for recognition of revenues are recorded as customer deposits until the revenue is recognized. Revenues recognized in advance of the criteria for invoicing to our customer are recorded as unbilled receivables. Accordingly, the reported amounts shown on the balance sheet under customer deposits or unbilled receivables may be over or understated.

Interest income is recognized as earned.

### Value of Goodwill

We recorded goodwill on the purchase of the assets of a predecessor company. The value of goodwill is tested for impairment annually or more frequently if an event or circumstance occurs which we feel may result in an impairment of the value of goodwill.

### Stock Based Compensation Plan

From time to time we issue stock options to employees, directors, officers or consultants. We have adopted the recommendations of Section 3870 of the Canadian Institute of Chartered Accountants' Handbook, "Stock Based Compensation and Other Stock Based Payments". Options granted to employees are valued at the grant date using the Black-Scholes option pricing model which requires management to make assumptions as to volatility, exercise date and option life. The value of the options is expensed over the vesting period of the options, generally a period of four years. Options granted to non-employees are valued at the grant date using the Black-Scholes option pricing model. The options are expensed at the time the goods are received or services performed, or over the vesting period.

## CHANGES IN ACCOUNTING POLICIES

### Goodwill, Intangible Assets and Financial Statement Concept

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. The standard requires retroactive application to prior period financial statements. The adoption of the standard has had no material impact on our financial position or results of operations.

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

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.

## 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 expectations as of the date of this MD&A and thus, are subject to change for new facts and circumstances.

### Business Combinations

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

### Consolidated Financial Statements and Non-Controlling Interests

Sections 1601 and 1602 further align Canadian GAAP with U.S. GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to

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

### Multiple Deliverable Revenue Arrangements

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

## DISCLOSURE AND INTERNAL CONTROLS

Disclosure controls and procedures are those controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed under securities legislation in annual filings, interim filings or other reports is recorded, processed, summarized and reported within the time periods specified by the legislation. They include, without limitation, controls and procedures designed to ensure the information required to be disclosed in these reports is accumulated and communicated to the Company's management, including the Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO) to allow timely decisions regarding required disclosure.

The system of disclosure controls and procedures is designed to provide reasonable assurance, not absolute assurance, that all control issues and instances of fraud will be detected. The CEO and CFO are responsible for establishing and maintaining IMRIS's disclosure controls and procedures. An evaluation of the design and operation of the Company's disclosure controls and procedures as of the date of this report was conducted under the supervision of the CEO and CFO. The evaluation concluded that the controls and procedures were effective in providing such reasonable assurance.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements according to Canadian GAAP. An evaluation of the design and effectiveness of IMRIS's internal controls was conducted under the supervision of the CEO and CFO. The evaluation concluded that there were no significant weaknesses in the design or effectiveness of IMRIS's internal controls over financial reporting.

During the quarter ended December 31, 2009, we implemented a new enterprise resource planning (ERP) software system as noted in the Investing Activities section of this MD&A. The system went live on November 2, 2009, replacing the legacy ERP software system. The system implementation included core processing in production, inventory purchasing and accounting. Although there has been a change in the ERP system, the conversion has not resulted in a change that will materially affect our internal controls over financial reporting.

No material changes have been made to the Company's internal controls during 2009.

## RISKS AND UNCERTAINTIES

The operating results, business prospects and financial position of the Company are subject to a number of risks and uncertainties. Risks relating to our business include: our long sales cycle, high unit price and limited quarterly installations; our limited operating history and accumulated deficit; our lack of product diversity; our dependence on our suppliers; the development of IMRIS<sub>cardio</sub> and IMRIS<sub>nv</sub>; our reliance on key personnel; the lack of supporting clinical data; market competition and technological advances; patent protection and trade secrets; intellectual property litigation; our ability to shift from research and development to commercialization; our ability to manage

growth; foreign exchange fluctuations; additional financing requirements; and regulatory matters. If any of the events described as risks or uncertainties actually occurs, our business, prospects, financial condition and operating results would likely suffer, possibly materially. We have discussed several of the more significant risks and uncertainties which may affect the business below, however for a more comprehensive list of the risks and uncertainties affecting the business, readers are advised to refer to our most recent Annual Information Form, available at [www.sedar.com](http://www.sedar.com).

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

The long sales cycle, as well as the high unit price of the IMRIS systems, among other factors, may contribute to substantial fluctuations in our quarterly operating results. Because of the high unit price of IMRIS systems and the fact that we have completed the installation of only 19 units over the Company's history, each installation currently represents a significant component of our revenue for a particular quarter. If we lose a single customer order or if customers defer installation of an IMRIS system for even a short period of time, recognition of a significant amount of revenue may be lost or deferred to a subsequent period. Given that our operating costs are relatively fixed, our inability to recognize revenue in a particular quarter may adversely affect our profitability in that quarter. We expect that revenues from a limited number of new customers will account for a large percentage of total revenues in future quarters. Our ability to attract new customers will depend on a variety of factors, including the capability, safety, efficacy, ease of use, price, quality and reliability of our products and effective sales, support, training and service. In addition, if we are unable to fulfill our current purchase orders and other commitments on a timely basis or at all, market acceptance of our products could be adversely affected and hospitals may instead purchase our competitors' products. The loss or delay of individual orders or failure to add new customers could have a significant impact on future revenues and operating results.

### Limited Operating History and Accumulated Deficit

We have a limited operating history from which investors can evaluate our business and prospects. We have a large accumulated deficit and we may not maintain profitability. We have incurred substantial losses since inception and despite achieving profitability in the fourth quarter of 2009; we may incur additional

operating losses in the near term. If the time required to generate significant revenues and achieve profitability on an annualized basis is longer than anticipated, we may not be able to continue our operations without additional capital. Our prospects must be considered in light of the risks and uncertainties encountered by an early-stage company in the continuously-evolving surgical imaging market. If we cannot successfully address these risks, our business and financial condition would suffer.

### Lack of Product Diversity

Currently, our commercially available products are the IMRISneuro, IMRIScardio and IMRISNV systems. Although we expect sales of our new IMRIScardio and IMRISNV systems to increase with market acceptance of these systems, we currently generate substantially all of our revenue from sales of the IMRISneuro system and multiyear service plans for the IMRISneuro system. If we are unable to sustain or grow sales of the IMRISneuro system or grow sales of IMRIScardio and IMRISNV, we may not generate sufficient revenue to support our business. Accordingly, we are currently dependent on our ability to market and sell the IMRISneuro system. Any factor materially and/or adversely affecting our ability to market and sell the IMRISneuro system or pricing and demand for the IMRISneuro system may have a material and adverse effect on our financial condition and results of operations.

### Foreign Exchange Fluctuations

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

### Regulatory Matters

Products intended for diagnostic and therapeutic use for humans are governed by a wide array of regulatory authorities in various jurisdictions. For most of these products in most

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

### Dependence on Suppliers

We depend on Siemens to supply the MR scanner and angiography systems for our IMRIS systems. Our current agreement with Siemens was entered into as of November 2009 for a five-year term with automatic renewal provisions thereafter, subject to six months' advance written notice of termination by either party. The agreement may be terminated earlier in the event of default or in the event of insolvency or equivalent proceedings against either party or in the event of a change of control or similar sale transaction affecting IMRIS where the buyer or controlling shareholder is a direct competitor to Siemens. If for any reason we could not obtain MR scanners and angiography systems from Siemens, there is no certainty that we could find another vendor willing to supply this equipment for the IMRIS systems and a change would require a redesign of the IMRIS systems, which could take a year or more to implement. We are dependant on Siemens to provide support and maintenance services to our customers under contract to IMRIS; if Siemens' services became unavailable, any resulting service issues could disrupt our customer relationships and cause damage to our reputation.

We purchase certain other components of our system from outside vendors, including radio-frequency shielding systems, certain hardware components for our surgical information management system and operating room booms and lights. For the majority of our system components, we do not have long-term supply contracts with the suppliers; however, we attempt to establish dual sourcing for most of these other components of our system and we believe that we would be able to establish alternative sources for these components, subject to any regulatory qualifications, as may be required. It is possible that a disruption of the supply

of these components could result in increased costs and delays in deliveries of IMRIS systems, which could adversely affect our reputation and results of operations. Additionally, any transition to alternate manufacturers or suppliers would likely result in operational problems and increased expenses and could delay the shipment of, or limit our ability to provide our products.

### Competition and Technological Advances

The surgical imaging industry is subject to intense and increasing competition and rapidly evolving technologies. Many government, academic and business entities are investing substantial resources in research and development of treatments and new products that may render surgical imaging obsolete, including radiation treatment, new drug treatments and gene therapy. Successful developments that result in new approaches for treatments could reduce the attractiveness of our products or render them obsolete. MRI competes with other surgical imaging technologies such as CT, fluoroscopy and ultrasound for market share in the overall surgical imaging market.

The market for neurosurgical MR imaging is highly competitive, with a number of companies providing competing surgical MRI systems. Many of these competitors are large medical system suppliers which have considerably greater resources at their disposal to advance the development of their MRI systems. These competitors or other companies may at any time develop new or improved surgical imaging solutions. Alternatively, these competitors may choose to increase their respective market share by changing their pricing model or by lowering the price of their surgical imaging solutions or ancillary supplies. If we are unable to address these competitor tactics by either continuing to enhance and improve our current product(s) or we are unable to maintain or increase our selling price in the face of competition, there can be no assurance that the Company will be able to maintain its desired market share or achieve its financial objectives.

## ADDITIONAL INFORMATION

Additional information about IMRIS can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements, management's discussion and analysis ("MD&A") and other information in the Annual Report are the responsibility of management. The financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare these statements in accordance with Canadian generally accepted accounting principles. The MD&A and financial information contained in this Annual Report are consistent with the financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being reported, management has developed and maintains a system of internal controls. An integral part of the system is the requirement that employees maintain the highest standard of ethics in their activities. Business reviews are performed by management to evaluate our internal controls, systems and procedures.

The Board of Directors, acting through the Audit and Governance Committee composed solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and MD&A, and in the financial control of operations.

The Audit and Governance Committee meets regularly with financial management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues and reports its findings to the Board. The Audit and Governance Committee reviews the consolidated financial statements, MD&A and material financial announcements with management and the external auditors prior to the Board for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the independent external auditors, Deloitte & Touche LLP, whose report follows.



H. David Graves  
Chairman and Chief Executive Officer  
Winnipeg, Canada



Kelly McNeill  
Executive Vice President, Finance and Administration and  
Chief Financial Officer  
Winnipeg, Canada

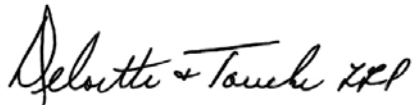
## AUDITORS' REPORT

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.



Chartered Accountants

Winnipeg, Manitoba  
February 17, 2010

## CONSOLIDATED BALANCE SHEETS

As at December 31  
(In CDN dollars)

	2009	2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 5)	\$ 26,273,633	\$ 18,597,333
Accounts receivable (note 6)	13,716,600	1,208,380
Unbilled receivables	5,201,928	3,051,782
Inventory (note 7)	3,100,736	2,186,283
Prepaid expenses	2,167,921	1,133,570
	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
<b>Total assets</b>	<b>\$ 65,583,833</b>	<b>\$ 39,848,770</b>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,672,526	\$ 6,227,986
Customer deposits	21,050,029	12,647,883
Current portion of capital lease obligation (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)		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 65,583,833</b>	<b>\$ 39,848,770</b>

Approved on behalf of the Board of Directors

See accompanying notes



H. David Graves  
Chairman & Chief Executive Officer



David A. Leslie, F.C.A.  
Director

## 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)

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31  
(In CDN dollars)

	2009	2008
<b>OPERATING ACTIVITIES</b>		
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>
<b>FINANCING ACTIVITIES</b>		
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>
<b>INVESTING ACTIVITIES</b>		
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>
<i>Supplemental disclosure of cash flow information</i>		
Cash paid during the year for:		
Interest	\$ 36,758	\$ 7,244
Income taxes	-	-

See accompanying notes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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.

*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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued*

*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.

*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.

#### 4. FUTURE ACCOUNTING STANDARDS

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

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

##### *Business Combinations*

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

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

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

##### *Multiple Deliverable Revenue Arrangements*

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

»

## 5. CASH AND CASH EQUIVALENTS

	2009		2008	
Cash	\$	7,972,451	\$	7,167,897
Short term investments		18,301,182		11,429,436
	\$	26,273,633	\$	18,597,333

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

	2009		2008	
Accounts receivable, trade	\$	13,526,167	\$	1,094,940
Commodity taxes receivable		182,605		91,784
Interest receivable		7,828		21,656
	\$	13,716,600	\$	1,208,380

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:

	Current	1 to 30 days past due	31 to 60 days past due	> 60 days past due
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

	2009		2008	
Materials	\$	2,688,312	\$	2,146,319
Work in progress		412,424		39,964
	\$	3,100,736	\$	2,186,283

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

## 8. PROPERTY, PLANT, AND EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Computer software	\$ 699,070	\$ 238,923	\$ 460,147	\$ 222,945	\$ 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
	\$13,459,597	\$ 5,077,426	\$ 8,382,171	\$ 9,852,864	\$ 2,968,211	\$ 6,884,653

## 9. PATENTS

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

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)	3,697,250	20,704,600
Costs relating to November 2, 2009 offering		(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.

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.

11. CAPITAL STOCK

c) *Stock-based compensation plan—continued*

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:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
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:

Year granted	Number of options outstanding	Exercise price range	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	Expiry date
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	

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:

	2009	2008
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*

	2009	2008
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:

	2009	2008
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	\$ -	\$ -

*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:

	2009	2008
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	\$ -	\$ -

12. INCOME TAXES—*continued*

c) *Non-capital losses*

As at December 31, 2009, the 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

| 44

## 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
	\$	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:

	2009		2008	
North America	\$	43,300,369	\$	15,304,756
Asia Pacific		1,117,149		7,647,730
	\$	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.

17. FINANCIAL RISK MANAGEMENT—*continued*

a) *Market Risk*

i. Foreign exchange risk

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

The balances in foreign currencies at December 31, 2009 are as follows:

	US Dollars
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)
	\$ 15,613,023

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.

»

*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 months	3 to 6 months	6 to 9 months	9 months to 1 year	Over 1 year
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

#### 18. FINANCIAL INSTRUMENTS—*continued*

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.

## CORPORATE INFORMATION

### Officers

**H. DAVID GRAVES**  
*Chairman & Chief Executive Officer*

**PABLO BATISTA**  
*Executive Vice President,  
Operations*

**MEIR DAHAN**  
*Executive Vice President,  
Research & Development*

**RAM LIEBENTHAL**  
*Executive Vice President,  
Marketing*

**KELLY MCNEILL, C.A.**  
*Executive Vice President,  
Finance & Administration & Chief Financial  
Officer*

**EDWARD RICHMOND**  
*President & Chief Operating Officer*

**DENIS SUTTON**  
*Executive Vice President,  
Human Resources*

### Directors

**H. DAVID GRAVES**  
*Chairman & Chief Executive Officer, IMRIS Inc.*

**ROBERT COURTEAU**<sup>1</sup>  
*Chief Operating Officer, SAP  
Global Field Operations*

**CAREY DIAMOND**<sup>1, 2</sup>  
*President and Chief Executive Officer,  
Whitecastle Investments Limited*

**WILLIAM FRASER, F.C.A.**<sup>2</sup>  
*Corporate Director*

**BLAINE HOBSON**<sup>1</sup>  
*Managing Partner,  
Whitecap Venture Partners*

**DAVID A. LESLIE, F.C.A.**<sup>2</sup>  
*Corporate Director*

<sup>1</sup> Member of the Compensation Committee

<sup>2</sup> Member of the Audit and Corporate Governance Committee



Head Office

**IMRIS INC.**

100 – 1370 Sony Place  
Winnipeg, Manitoba  
Canada, R3T 1N5  
1 888 304 0114  
T 204 480 7070  
F 204 480 7071  
E [info@imris.com](mailto:info@imris.com)

Auditors

**DELOITTE & TOUCHE LLP**

360 Main Street  
Suite 2300  
Winnipeg, Manitoba  
R3C 3Z3  
204 944 3633

Stock Exchange Listing

**THE TORONTO STOCK EXCHANGE**

Listing Symbol - IM

Transfer Agent

**COMPUTERSHARE INVESTOR SERVICES INC.**

100 University Ave., 9th Floor, North Tower  
Toronto, Ontario  
Canada, M5J 2Y1  
1-800-564-6253  
T 514-982-7555  
[www.computershare.com/service](http://www.computershare.com/service)

Corporate Counsel

**LABARGE WEINSTEIN**

**PROFESSIONAL CORPORATION**

515 Legget Drive, Suite 800  
Ottawa, Ontario  
K2K 3G4  
613 599 9600

Annual & Special Meeting of Shareholders

**THURSDAY, MAY 11, 2010, 11:00 A.M.**

**(EASTERN TIME)**

Le Royal Meridien King Edward Hotel  
37 King Street East  
Toronto, Ontario