



Report to Shareholders

Period Ended September 30, 2008



November 11, 2008

To our Shareholders,

I am pleased to report that the results for our third quarter ended September 30, 2008 showed continued growth in orders and improved gross profit on sales of our IMRISneuro product suite.

Operating Results Summary:

- Sales increased by 23% for the nine month period ended September 30, 2008 compared to the same period in 2007. Sales were \$17.2 million as compared to \$14.0 million for the same period in 2007, an increase of \$3.2 million.
- Gross profit percentage for the third quarter improved to 29.6% compared to 8.8% in 2007. Year to date, gross profit percentage was 20.5% compared to 12.8% in the same period in 2007.

Order Backlog:

- Order backlog grew 53%, increasing from \$31.7 million at December 31, 2007 to \$48.5 million as at September 30, 2008.

Sales for the third quarter of 2008 were \$4.9 million, a decrease of 39% over the same period in 2007. As reported previously, quarterly revenues will fluctuate due to the timing of installations, which may be impacted by a number of factors, including project specification changes and constructions delays. For the nine months ending September 30, 2008 sales increased 23% over the same period in 2007 to \$17.2 million. The increase in revenue was directly attributable to an increase in IMRISneuro installations and were primarily driven by installations in China, India and North America.

Gross profit for the third quarter and nine months ended September 30, 2008 increased by approximately \$0.7 million and \$1.7 million respectively as compared to the same periods in the prior year. Gross profit percentage for the third quarter of 2008 was 29.6% as compared to 8.8% in 2007. For the nine months ending September 30, 2008 the gross profit percentage was 20.5% as compared to 12.8% in 2007. The Company is focused on improving gross profits and expects margin improvement in the next twelve months from current levels.

Operating expenses for the third quarter were \$6.5 million, an increase of approximately \$2.6 million or 65% over the third quarter of 2007. Operating expenses were \$17.5 million for the nine months ended September 30, 2008, an increase of approximately \$5.4 million or 45% higher as compared to the first nine months of 2007. The third quarter and year to date increases were reflected across most major functional areas of the Company. A substantial amount of the increases in these departmental expenses was attributable to increased staff levels. The Company believes the current staffing level is sufficient to handle the anticipated short and near term growth in demand for its products.

The net loss for the third quarter was \$4.7 million, an increase of \$1.2 million over the third quarter of 2007. The increase in loss was mainly due to higher staffing costs offset by higher gross profit. The year to date loss increased from \$10.5 million in 2007 to \$13.1 million in 2008. The increase in the loss was due to the higher operating expense levels to facilitate the Company's increased commercialization efforts, partially offset by higher gross profit.

Outlook

Following the receipt of a customer purchase order, the delivery and installation cycle for one of the Company's systems typically ranges from five to twelve months. In some cases, IMRIS expects the delivery

and installation cycle of the current order backlog to be longer than twelve months, mainly due to lengthening construction schedules by customers.

Given the number of systems awaiting installation and the high dollar value of each system, the Company's quarter-over-quarter revenue may vary significantly in the near term. The Company does believe that overall sales and gross margin will continue to grow on an annualized basis as a result of its significant order backlog.

We are currently in a strong cash position with a growing order backlog, providing us with substantial resources for continued growth. In the near term, we will be particularly focused on generating additional orders, carefully managing our expenses and improving our gross profit margins, an objective we believe is realistic as we continue to see improved margins on recent orders.

We look forward to updating you on our progress in future quarters.

Yours truly,

A handwritten signature in black ink, appearing to read "D Graves", written in a cursive style.

David Graves
Chairman, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This interim Management Discussion and Analysis ("MD&A") is dated as at November 11, 2008 and should be read in conjunction with the interim unaudited consolidated financial statements and the notes thereto for the three and nine months ended September 30, 2008, included herein, and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007. In this MD&A, "IMRIS", the "Company", "we", "our" and "us" are used to refer to IMRIS Inc.

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

A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors which could cause future outcomes to differ materially from those set forth in the forward-looking statements include, but are not limited to: [i] timing and amount of revenue recognition of order backlog and the Company's expectation of sales and margin growth ii) obtaining sufficient and suitable financing to support operations and commercialization of products, [iii] adequately protecting proprietary information and technology from competitors, [iv] obtaining regulatory approvals and successfully completing new product launches, [v] successfully competing in the targeted markets, and [vi] maintaining third party relationships, including key personnel, and key suppliers. In evaluating these forward-looking statements, readers should specifically consider various factors, including the risks outlined under "Risks and Uncertainties", which may cause actual events, performance or results to differ materially from any forward-looking statement. Although the forward-looking statements contained in this MD&A 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 forward-looking statements, and management's assumptions may prove to be incorrect. These forward-looking statements are made 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 events or circumstances. Additional information including our annual information form and management's discussion and analysis for the year ended December 31, 2007 is available on SEDAR at www.sedar.com.

Overview

IMRIS is a global leader in providing fully integrated surgical imaging solutions designed to measurably improve patient outcomes. The Company's flagship product, IMRISneuro, is a fully integrated operating room that combines IMRIS' patented magnet mover technology and IMRIS' surgical information management system to provide surgeons with near real-time high resolution MR images during a surgical procedure, enabling them to make better decisions with the ultimate goal of improving patient outcomes.

Surgical imaging is the ability to obtain images of patient anatomy during the course of surgical or interventional procedures. In the past, surgeons relied on pre-operative images to plan a surgical procedure and post-operative images to confirm whether they had achieved the desired results. More recently, surgical imaging systems have been introduced that provide surgeons with current images of patient anatomy while the surgical procedure is still in progress. Using the information provided by these real-time images, surgeons can make effective adjustments to the surgical procedure while it is in progress, often leading to improved patient outcomes and reducing the likelihood that repeat surgeries will be needed.

The benefits of surgical MR imaging are particularly well recognized in the field of neurosurgery. Due to the invasive nature of brain surgery and the importance of minimizing disturbance to healthy brain tissue, neurosurgical procedures particularly benefit from an MRI's unique ability to distinguish between diseased and healthy brain tissue.

Our IMRISneuro system adopted a novel approach to surgical MR imaging based on three principles; patient safety, surgical efficiency and financial utility. IMRISneuro uses our patented technology to move the MRI scanner to the patient, rather than moving the patient to the scanner (a method used by some of our competitors), while the surgery is in progress. The MRI scanner is moved on an overhead set of rails from an adjacent suite into the operating room and is positioned directly over the patient at the appropriate time during the surgical procedure. The patient therefore does not need to be moved for scanning, reducing the associated risks to the patient while maintaining optimum patient positioning. At the same time, since the MRI scanner is only present inside the operating room for a few minutes while scanning, the surgical team is afforded unrestricted access to the patient and does not need to use special MR-compatible instruments for the surgery. Finally, when not in use during surgery, the MRI scanner is located in an adjacent room and can be used to provide diagnostic MR imaging, thereby ensuring that the hospital obtains maximum utility from its MRI equipment.

IMRISneuro has been validated by leading neurosurgeons around the world for use in world-class neuroscience centers and has become the market-leading surgical MR imaging system. To date, we have sold 22 systems, with 8 units in clinical operation. Of the 22 systems sold, seven are in the United States, and 1 is in Canada and an additional 14 systems are in the delivery phase.

We are also currently developing our IMRIScardio system, which utilizes many of the same system components and is intended to offer many of the same benefits of the IMRISneuro system, adapted for use in interventional cardiovascular procedures. Cardiovascular interventionists can measure the effectiveness of interventional procedures using information that is derived from MR images, such as measurement of the strength of heart contractility or blood perfusion in the heart muscle. This allows the interventionist to make immediate treatment decisions, such as the introduction of further interventional measures or the determination to proceed to surgery, which could ultimately improve the outcome for the patient.

IMRIS Business Model

The purchase and installation of an IMRISneuro system represents a significant capital project for our customers. The price of an integrated IMRISneuro system ranges from approximately \$3.5 million to \$7.5 million, depending on the room configuration and the level of integration services. In addition to the purchase of our equipment, our customers may require a further \$1 million to \$3 million or more in additional capital expenditures for room construction and ancillary operating room equipment.

Our sales process requires that we engage with a number of different stakeholders within and outside the hospital including representatives from neurosurgery, radiology, facilities management and administration. As a result, the sales cycle associated with the marketing of our systems is both complex and lengthy, with a typical sales cycle of more than 12 months from initial customer engagement to our 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. Our delivery cycle includes a phase for initial design and obtaining of permits, structural site construction activities carried out by the hospital and our RF Shielding subcontractor, installation of our overhead rail system, the delivery and installation of the MRI scanner and the remaining system components and final testing and integration of the system.

Given the lengthy delivery cycle, our terms of sale are such that we invoice our customers for the system in installments spread over a number of milestones. These milestones typically include a deposit at the time of order; and a percentage of the total system price upon each of 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.

As a result of our short operating history and the limited number of systems sold to date as well as the high dollar value associated with each sale, revenues recorded from quarter to quarter may vary significantly depending on the number and nature of active projects in any given period. We expect that quarter over quarter results in the future will continue to fluctuate in the near term for these reasons.

Third Quarter and 2008 Operating Highlights and Outlook

In the third quarter of 2008, the Company achieved the following highlights:

- Sales increased by 23% for the nine month period ended September 30, 2008 compared to the same period in 2007. Sales were \$17.2 million as compared to \$14.0 million for the same period in 2007, an increase of \$3.2 million.
- Gross profit percentage for the current quarter improved to 29.6% from 8.8% in 2007. Year to date, the gross profit percentage increase to 20.5% from 12.8% in 2007.
- Order backlog (as defined below) grew 52.8% showing significant growth, increasing from \$31.7 million at December 31, 2007 to \$48.5 million as at September 30, 2008.

Summary of Selected Financial Information

The following table sets forth selected financial information for the dates and periods indicated and should be read in conjunction with our interim unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2008.

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2008	2007	% Change	2008	2007	% Change
Statement of Operations (In CDN dollars) (Unaudited)						
Sales	\$ 4,869,433	\$ 7,969,788	-39%	\$ 17,218,641	\$ 14,020,667	23%
Cost of sales	3,426,189	7,267,342	-53%	13,689,906	12,223,048	12%
Gross Profit	1,443,244	702,446	105%	3,528,735	1,797,619	96%
As a percentage of sales	29.6%	8.8%		20.5%	12.8%	
Operating expenses						
Administration	1,733,936	1,269,776	37%	5,088,585	3,510,867	45%
Sales and marketing	1,747,905	735,273	138%	4,708,728	2,428,870	94%
Customer support and operations	1,137,320	979,915	16%	3,316,470	2,945,055	13%
Research and development	1,419,993	697,512	104%	3,433,851	2,508,129	37%
Amortization	432,931	245,132	77%	953,242	692,051	38%
	6,472,085	3,927,608	65%	17,500,876	12,084,972	45%
Loss before the following	(5,028,841)	(3,225,162)	56%	(13,972,141)	(10,287,353)	36%
Foreign exchange gain (loss)	230,763	(222,632)	-204%	238,037	(211,849)	-212%
Interest income (loss)	118,060	(11,545)		586,304	(1,823)	
Net loss for the period	\$ (4,680,018)	\$ (3,459,339)	35%	\$ (13,147,800)	\$ (10,501,025)	25%
Basic and fully diluted loss per share	\$ (0.17)	\$ (0.17)	0%	\$ (0.48)	\$ (0.60)	-20%

Operating Results

Sales

Sales for the third quarter were \$4.9 million, compared to \$8.0 million for the same period in 2007. Because of the high unit price of the IMRISneuro system and the relatively limited number of units installed each quarter, each installation currently represents a significant portion of our revenue for a particular quarter. As a result, despite a growing order backlog, revenues will fluctuate due to the timing of installations which may be impacted by project changes, construction delays and other factors.

Sales for the nine months ending September 30, 2008 increased by \$3.2 million to \$17.2 million compared to \$14 million for the same period in 2007. The increase in revenues was directly attributable to an increase in IMRISneuro system installations. Year to date sales were primarily driven by progress on product installations in four locations including two in the Asia Pacific and two in the North America market.

Sales for the current year included \$16.7 million of revenues associated with new IMRISneuro system deliveries and \$0.5 million of revenues associated with extended maintenance contracts.

Gross Profit

Gross profit for the three and nine months ended September 30, 2008 increased by approximately \$0.7 million and \$1.7 million, respectively as compared to the same periods in 2007. The gross profit percentage for the third quarter of 2008 was 29.6% in 2008 as compared to 8.8% in 2007. The higher gross profit percentage in the current period was mainly driven by reducing discounts which were previously offered to early adopters and by implementing focused programs to reduce the direct costs of our systems. We believe these measures will lead to further margin enhancement as we work through the current order backlog. For the nine months ended September 30, 2008 the gross profit percentage was 20.5% as compared to 12.8 % in 2007.

Operating expenses

Operating expenses for the third quarter were \$6.5 million, an increase of approximately \$2.6 million or 65% over the third quarter of 2007. Operating expenses were \$17.5 million for the nine months ended September 30, 2008, an increase of approximately \$5.4 million or 45% higher as compared to the first nine months of 2007. The third quarter and year to date increases are reflected across all major functional areas of the Company. A substantial amount of the growth in these departmental expenses is attributable to increased staff levels as compared to prior year. We believe the Company is now adequately staffed to handle the anticipated growth in demand for IMRISneuro in the near to mid-term. We anticipate that our operating expenses will remain relatively stable as compared to current levels during this period.

Administrative expenses were \$1.7 million for the three months ended September 30, 2008 as compared to \$1.3 million during the same period in 2007. Administrative expenses increased by approximately \$1.6 million from \$3.5 million for the first nine months of 2007 to \$5.1 million in the first nine months of 2008. This increase is primarily comprised of increased expenses related to staffing costs (\$1.4 million), increases in investor relations fees (\$0.1 million) increases in professional fees (\$0.1 million) and increases in insurance costs (\$0.1 million), offset by decreases in travel (\$0.1 million).

Sales and marketing expenses were \$1.7 million for the three months ended September 30, 2008 as compared to \$0.7 million during the same period in 2007. Sales and marketing expenses increased by approximately \$2.3 million from \$2.4 million in the first nine months of 2007 to \$4.7 million in the first nine months of 2008. This increase is comprised of the following: an increase in sales staff including the operation of offices in China, Japan, Europe, Australia and India (\$1.3 million); higher sales commission expense (\$0.5 million); and increased travel costs (\$0.5 million).

Customer support and operations expenses were \$1.1 million for the three months ended September 30, 2008, as compared to \$1.0 million during the same period in 2007. Customer support and operations expense increased by approximately \$0.4 million; from \$2.9 million in the first nine months of 2007 to \$3.3 million in the first nine months of 2008. This increase is primarily comprised of increased staff-related expenses (\$0.5 million) partially offset by decreases in other customer support and operations expense.

Research and development expenses were \$1.4 million for the three months ended September 30, 2008 as compared to \$0.7 million during the same period in 2007. Research and development expense increased by approximately \$0.9 million, from \$2.5 million in the first nine months of 2007 to \$3.4 million in the first nine months of 2008. This increase is primarily comprised of increased staff-related expenses (\$0.5 million) and development costs attributable to product enhancements, the addition of new components and new features to our IMRISneuro and IMRIScardio systems (\$0.5 million). These increases were partially offset by a reduction (\$0.1 million) in other research and development expenses

Amortization expenses were \$0.4 million for the three months ended September 30, 2008 as compared to \$0.2 million during the same period in 2007. Amortization expenses increased approximately \$0.3 million to approximately \$1.0 million in the first nine months of 2008 compared with \$0.7 million in the first nine months of 2007. The increased amortization expense results primarily from the capital asset additions to the research and development test lab and IMRIScardio prototype.

Net loss for the period

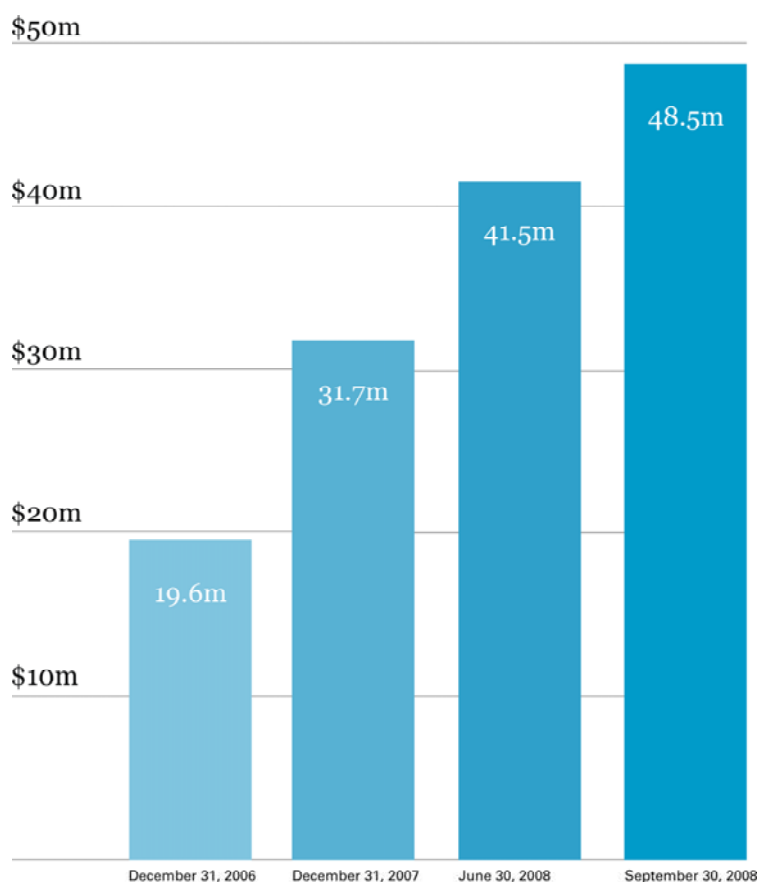
Our net loss for the three months ended September 30, 2008 was \$4.7 million, an increase of \$1.2 million over the third quarter of 2007. The year to date loss increased from \$10.5 million in 2007 to \$13.1 million in 2008. This was mainly due to increased staffing costs which were partially off set by higher gross profit.

Summary of Quarterly Results

(In CDN dollars) (Unaudited)	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Sales	\$ 3,565,980	\$ 3,566,293	\$ 2,484,586	\$ 7,969,788	\$ 3,424,391	\$ 4,158,136	\$ 8,191,072	\$ 4,869,433
Cost of sales	2,085,174	2,637,464	2,318,242	7,267,342	2,957,391	3,640,443	6,623,274	3,426,189
Gross Profit	1,480,806	928,829	166,344	702,446	467,000	517,693	1,567,798	1,443,244
As a percentage of sales	41.5%	26.0%	6.7%	8.8%	13.6%	12.5%	19.1%	29.6%
Operating expenses								
Administration	1,088,942	834,894	1,406,197	1,269,776	1,789,979	1,741,635	1,613,014	1,733,936
Sales and marketing	771,391	687,250	1,006,347	735,273	1,068,448	1,322,545	1,638,278	1,747,905
Customer support and operations	363,623	769,203	1,195,937	979,915	954,769	1,027,280	1,151,870	1,137,320
Research and development	573,347	943,983	866,634	697,512	826,381	903,844	1,110,014	1,419,993
Amortization	453,570	214,131	232,788	245,132	248,581	250,698	269,613	432,931
	3,250,873	3,449,461	4,707,903	3,927,608	4,888,158	5,246,002	5,782,789	6,472,085
Loss before the following	(1,770,067)	(2,520,632)	(4,541,559)	(3,225,162)	(4,421,158)	(4,728,309)	(4,214,991)	(5,028,841)
Amortization of finance costs	(102,570)	-	-	-	-	-	-	-
Foreign exchange (loss) gain	80,479	1,883	8,900	(222,632)	127,622	52,492	(45,218)	230,763
Interest income (expense)	24,809	5,892	3,830	(11,545)	224,368	271,305	196,939	118,060
Net loss for the period	\$ (1,767,349)	\$ (2,512,857)	\$ (4,528,829)	\$ (3,459,339)	\$ (4,069,168)	\$ (4,404,512)	\$ (4,063,270)	\$ (4,680,018)
Basic and diluted loss per share	\$ (0.12)	\$ (0.17)	\$ (0.26)	\$ (0.17)	\$ (0.16)	\$ (0.16)	\$ (0.15)	\$ (0.17)

As noted in the IMRIS Business Model section above, as a consequence of the limited number of systems sold to date and the high dollar value associated with each sale, our revenues from quarter to quarter tend to vary significantly.

Order Backlog



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

During the third quarter of 2008, we received two new system orders, partially offset by progress on product installations on prior orders. Accordingly, our order backlog increased to \$48.5 million as at September 30, 2008 compared to \$41.5 million as at June 30, 2008. We have been able to convert past order backlog to recognized revenue as a result of the contracts underlying these orders and we have assumed that we will continue to convert our present order backlog to recognized revenue going forward.

Outlook

Since its formation, the Company has focused its efforts on gaining market acceptance for its products and on ensuring the successful delivery of each customer installation by developing core competencies across all facets of the organization. These efforts to date have been rewarded with significant market acceptance for our IMRISneuro product suite, which is best demonstrated by the positive trend in our sales results and demonstrated by the consistent quarter over quarter backlog growth.

Following the receipt of a customer purchase order, the delivery and installation cycle for one of our systems typically ranges from five to twelve months. In some cases, the Company expects that the delivery and installation cycle of the current order backlog may become longer than twelve months, primarily due to lengthening construction schedules by customers.

Given the number of systems awaiting installation and the high dollar value of each system, the Company's quarter-over-quarter revenue may vary significantly in the near term. The Company believes that overall sales will continue to grow on an annualized basis as a result of its significant order backlog.

We are also focused on improving our margins and expect an improvement over current levels in the next twelve months. We have reduced discounts offered to early adopters and implemented focused programs to reduce the direct costs of our systems, which we believe will lead to further margin enhancement.

The economic landscape is changing rapidly. While we continue to be optimistic about our long-term prospects, we also recognize that we are not immune to the current macro-economic challenges facing all businesses as a result of the weakening credit environment. Many of our system orders are from Hospitals with endowment funds and as such they do not depend on the credit markets to finance capital purchases. However, we do recognize that it may impact the spending decisions of some potential customers. We will continue to monitor the situation and take the necessary measures to ensure the long term sustainability and growth of our business.

The Company has scaled its operations, such that we will not require a significant increase in operating expenses to meet the anticipated growth in operations over the next 12 months. As such, we would expect to see these expenses remain around current levels in the near term. At the same time, we do expect to see continued growth in revenue in fiscal 2009 as we move towards profitability. Based on our current outlook, we believe that overall sales and gross margin will continue to grow on an annualized basis as a result of our significant order backlog. To date, we have sold 22 systems, with 13 systems expected to be in clinical operation this year. The majority of the remaining systems are expected to be completed in 2009.

Our strategies for near-term growth and value-creation include the continued expansion of our efforts to commercialize our IMRISneuro products by increasing our geographic coverage within the U.S.A, Asia and Europe and by developing highly focused marketing programs for targeting neurosurgeons and neurosurgical facilities. We also are developing our IMRIScardio product suite, which we believe will open an entirely new market and revenue stream for the Company.

We have an adequate cash position, with a substantial order backlog, providing us with considerable resources to continue to grow our business and invest in new product development. Over the near term, we will be particularly focused on generating additional orders, carefully managing our expenses and improving our gross profit margins, a realistic objective, as we continue to see improved margins on recent orders.

Our longer term objectives include continued innovation and development of high value imaging solutions for specific surgical applications, the strengthening of our technology base and competitive barriers and the growth of recurring revenue sources.

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 advance deposits from customers associated with new customer orders.

We had cash or cash equivalents of \$18.1 million as at September 30, 2008, representing a decrease of approximately \$12.7 million from the balance of \$30.8 million at December 31, 2007. The decrease in cash resulted from the operating loss, increases in accounts receivables and capital equipment purchases, offset by increased accounts payables and accrued liabilities and increases in customer deposits.

The following table sets forth the summary statement of cash flows for the periods indicated and should be read in conjunction with our unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2008.

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
Statements of Cash Flows (In CDN dollars) (Unaudited)						
Cash flows:						
From Operating Activities	\$ (3,168,808)	\$ (422,583)	\$ (2,746,225)	\$ (7,409,083)	\$ (10,319,608)	\$ 2,910,525
Used in Financing Activities	(48,056)	(639,751)	591,695	(173,978)	8,052,385	(8,226,363)
Used in Investing Activities	(281,052)	(113,625)	(167,427)	(5,083,667)	(645,471)	(4,438,196)
Net decrease	(3,497,916)	(1,175,959)	(2,321,957)	(12,666,728)	(2,912,694)	(9,754,034)
Cash and cash equivalents, opening	21,635,177	1,175,959		30,803,989	2,912,694	
Cash and cash equivalents, closing	\$ 18,137,261	\$ -	\$ 18,137,261	\$ 18,137,261	\$ -	\$ 18,137,261

Operating Activities

The cash used in operating activities for the three and nine months ended September 30, 2008 was approximately \$3.2 million and \$7.4 million, respectively. The cash used in the third quarter was comprised of the operating loss (excluding non-cash related items) for the year of approximately \$4.1 million partially offset by \$0.9 million increase in working capital. This increase in working capital relates primarily to decrease in accounts receivables (\$0.7 million). Accounts payables and accrued liabilities decreased by \$3.0 million which was more than offset by the \$3.4 million increase in customer deposits.

Financing Activities

Cash used in financing activities in the current quarter and year to date relate to payment of long term debt and capital lease obligations.

Investing Activities

The cash used in investing activities for the three and nine months ended September 30, 2008 was approximately \$0.3 million and \$5.1 million, respectively and was used entirely for capital equipment purchases. During the current quarter, the Company purchased capital equipment required as a result of increased staffing levels. Capital expenditures for the nine months ended September 30, 2008 included \$4.3 million required for development of our IMRIScardio system.

Long-term Debt and Contractual Obligations

Long-Term Debt

	September 30, 2008	December 31, 2007
Long-term debt (current and long term portions)	\$39,406	\$211,593

The long-term debt is comprised of an initial \$495,000 loan under the NRC Industrial Research Assistance Program ("NRC IRAP") for certain research and development activities. The loan facility is unsecured, non-interest bearing and repayable quarterly at a rate of 1% of gross revenues for the preceding quarter until repaid. We expect that the entire outstanding balance of \$39,406 will be repaid in 2008 and have therefore classified it as current.

Outstanding Share Data

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

	Authorized	September 30, 2008	December 31, 2007
Common shares	unlimited	\$65,992,820 (27,352,513 common shares)	\$65,985,620 (27,348,013 common shares)
Preferred shares	unlimited	Nil	Nil
Contributed surplus	-	\$1,059,156	\$576,065

As at September 30, 2008 a total of 3,761,569 stock options were outstanding under the Company's stock option plan.

Financial Instruments

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

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 September 30, 2008 were \$11.4 million and were invested in short term bank deposits. Of this total, \$1.4 million was denominated in United States Dollars.

Our accounts receivable at September 30, 2008 were \$6.1 million, of which \$5.1 million is considered current (less than 60 days old). Of the total accounts receivable, \$5.6 million was denominated in U.S. dollars.

Related Party Transactions

We lease air travel time from 5343381 Manitoba Ltd., a company which is wholly owned by Centara Corporation, a major shareholder of IMRIS. 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 current quarter was \$106,386 (2007 \$299,703) and \$319,832 for the nine months ended September 30, 2008 (2007 \$443,682).

As at September 30, 2008, the balance payable to this related party was \$87,150 versus \$88,466 as at December 31, 2007.

We also contract consulting services from a company that is controlled by a director of IMRIS. The amount charged to professional fees expenses with respect to transactions conducted on an estimated third party comparable cost basis with this related party during the current quarter was \$32,000 (2007 \$16,000) and \$96,000 for the nine months ended September 30, 2008 (2007 \$16,000).

The balance payable to this related party was \$Nil as at September 30, 2008 and December 31, 2007.

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 calculation of investment tax credits receivable, 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

As described in Note 3 of the unaudited consolidated financial statements for the nine months ended September 30, 2008, the Canadian Institute of Chartered Accountants (CICA) issued Section 1535, Capital Disclosures; Section 3031, Inventories; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments - Presentation. The Company adopted the new accounting standards as policy effective January 1, 2008. The changes in accounting policy were applied in accordance with transitional provisions contained in each of the applicable sections.

Section 1535, Capital Disclosures requires the Company to include additional information about its capital and the manner it is managed. Disclosure requirements for this section are contained in the unaudited consolidated financial statements note 15 – Capital Risk Management.

Section 3031, Inventories relates to the accounting for inventories and enhances the requirements for assigning costs to inventories. The Company accounts for its system sales using the percentage of completion method and thus is exempt from applying Section 3031 for inventory relating to system sales. Application of the section on the remaining inventory does not have any significant effect.

Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, provide standards for disclosure and presentation about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with financial instruments. Disclosure and presentation requirements for these sections are contained in the unaudited consolidated financial statements note 6 – Accounts Receivable, note 13 – Financial Risk Management and note 14 – Financial Instruments.

Recent Accounting Pronouncements Issued But Not Yet Adopted

Goodwill, Intangible Assets and Financial Statement Concepts; 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. While the Company is currently assessing the impact of this new standard on its consolidated financial statements, management does not expect the standard to have a significant impact on the Company's consolidated financial results, which applies commencing with the Company's 2009 fiscal year.

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 an assessment of the impact of the accounting standard differences to the financial statements is currently in progress. 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.

CEO and CFO Certifications

As a TSX listed company, IMRIS is required to comply with certain disclosure requirements as outlined in *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings* (“MI 52-109”). In accordance with MI 52-109, management advises the following:

Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) (the “Certifying Officers”) and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Commencing with the filing of our financial statements for the year ended December 31, 2007, our Chief Executive Officer and Chief Financial Officer of IMRIS also, as a result of the Company’s becoming a reporting issuer under securities legislation, became responsible for certifying that they have designed, or have caused to have designed under their supervision, internal controls over financial reporting (“ICFR”) to a standard which provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company has implemented and designed an internal control environment and procedures to support the Company’s financial reporting requirements. During the first quarter of 2008, management completed its review and documentation of the design of the Company’s ICFR. Our current assessment of the design of our ICFR has not identified any material weaknesses in ICFR. During the third quarter ended September 30, 2008, there have been no changes in the design of the Company’s ICFR that have materially affected, or are reasonably likely to affect materially, the Company’s ICFR.

Risks and Uncertainties

The operating results, business prospects and financial position of the Company are subject to a number of risks and uncertainties. Risks relating to our business include: our long sales cycle, high unit price and limited quarterly installations; our limited operating history and accumulated deficit; our lack of product diversity; our dependence on our suppliers; the development of IMRIScardio and industry focus; 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 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 listed 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 Annual Information Form for the year ended December 31, 2007, which is available at www.sedar.com.

Long sales cycle, high unit price and limited quarterly installations

The long sales cycle, as well as the high unit price of the IMRISneuro system, among other factors, may contribute to substantial fluctuations in our quarterly operating results. Because of the high unit price of the IMRISneuro system and the relatively limited number of units installed each quarter, 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 IMRISneuro 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 began our operations in 2005. Accordingly, we have a limited operating history from which investors can evaluate our business and prospects. We have a large accumulated deficit, we expect future losses, and we may not achieve or maintain profitability. We have incurred substantial losses since inception and we expect to incur additional operating losses in the near term, primarily as a result of the expansion of our marketing and sales efforts, the research and development costs of our IMRIScardio solution and the additional costs of operating as a public company. The extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. If the time required to generate significant revenues and achieve profitability is longer than anticipated, we may not be able to continue our operations. 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 only commercially available product is the IMRISneuro system. We expect to generate substantially all of our revenue for the foreseeable future 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, we may not generate sufficient revenue to support our business. Accordingly, we are 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.

Development of New Products

We are planning to leverage the IMRISneuro technology platform to target other major application areas. There is no assurance that we will be able to successfully develop or commercialize the new products, or that demand for these products will meet our expectations.

Dependence on suppliers

The IMRISneuro system is designed around a Siemens-supplied MRI scanner, with its associated software, diagnostic coils and controls and represents a key component. We currently depend on Siemens to supply the MRI scanner at the core of our IMRISneuro system under an OEM re-sale agreement. Our agreement with Siemens was entered into as of November 2005 for a five-year term with automatic renewal annually thereafter, subject to nine months advance written notice of termination by either party. The agreement may be terminated earlier 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 MRI scanners from Siemens, there is no certainty that we could find another vendor willing to supply an MRI scanner for IMRISneuro and a change in the MRI scanner would require a major redesign of the IMRISneuro system, which could take a year or more to implement. We are also

dependant on Siemens to provide ongoing 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 IMRISneuro 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.

Information Available on SEDAR

As specified by National Instrument 51-102, we advise readers of this MD&A that important additional information about the Company is available on the SEDAR website at www.sedar.com.



CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Unaudited)

November 11, 2008

(Date Issued)



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IMRIS INC.
Consolidated Balance Sheets
(In CDN dollars)
(September 30, 2008 Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents (note 5)	\$ 18,137,261	\$ 30,803,989
Accounts receivable (note 6)	6,136,036	4,113,253
Unbilled receivables	850,566	748,395
Investment tax credits receivable	-	260,784
Inventory (note 7)	2,641,933	2,647,101
Prepaid expenses	906,449	479,653
	<u>28,672,245</u>	<u>39,053,175</u>
Property and equipment	9,404,129	4,320,462
Accumulated amortization	<u>(2,475,588)</u>	<u>(1,555,860)</u>
	6,928,541	2,764,602
Goodwill	6,462,808	6,462,808
Patents	335,132	368,646
	<u>6,797,940</u>	<u>6,831,454</u>
Total assets	\$ 42,398,726	\$ 48,649,231
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,712,125	\$ 4,014,481
Customer deposits	12,025,457	7,135,834
Current portion of long term debt (note 8)	39,406	211,593
Current portion of capital lease obligation	11,406	10,858
	<u>17,788,394</u>	<u>11,372,766</u>
Long term liabilities		
Long term portion of capital lease obligation	-	8,624
	-	<u>8,624</u>
Total liabilities	17,788,394	11,381,390
Shareholders' equity		
Capital stock (note 9b)	65,992,820	65,985,620
Contributed surplus (note 9d)	1,059,156	576,065
Deficit	<u>(42,441,644)</u>	<u>(29,293,844)</u>
	24,610,332	37,267,841
Total liabilities and shareholders' equity	\$ 42,398,726	\$ 48,649,231

See accompanying notes

IMRIS INC.
Consolidated Statements of Loss and Comprehensive Loss and Deficit
(In CDN dollars)
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Sales	\$ 4,869,433	\$ 7,969,788	\$ 17,218,641	\$ 14,020,667
Cost of sales	3,426,189	7,267,342	13,689,906	12,223,048
Gross profit	1,443,244	702,446	3,528,735	1,797,619
Operating expenses				
Administrative	1,733,936	1,269,776	5,088,585	3,510,867
Sales and marketing	1,747,905	735,273	4,708,728	2,428,870
Customer support and operations	1,137,320	979,915	3,316,470	2,945,055
Research and development	1,419,993	697,512	3,433,851	2,508,129
Amortization	432,931	245,132	953,242	692,051
Total operating expenses	6,472,085	3,927,608	17,500,876	12,084,972
Loss before the following	(5,028,841)	(3,225,162)	(13,972,141)	(10,287,353)
Other income				
Foreign exchange gain (loss)	230,763	(222,632)	238,037	(211,849)
Interest income (expense)	118,060	(11,545)	586,304	(1,823)
Total other income	348,823	(234,177)	824,341	(213,672)
Loss for the period before taxes	(4,680,018)	(3,459,339)	(13,147,800)	(10,501,025)
Income taxes	-	-	-	-
Loss and comprehensive loss for the period	\$ (4,680,018)	\$ (3,459,339)	\$ (13,147,800)	\$ (10,501,025)
Deficit, beginning of period	(37,761,626)	(18,545,340)	(29,293,844)	(11,503,654)
Deficit, end of period	(42,441,644)	(22,004,679)	(42,441,644)	(22,004,679)
Weighted average number of common shares	27,351,323	20,628,846	27,351,073	17,738,707
Basic and diluted loss per share	\$ (0.17)	\$ (0.17)	\$ (0.48)	\$ (0.60)

See accompanying notes

IMRIS INC.
Consolidated Statements of Cash Flows
(In CDN dollars)
(Unaudited)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Loss for the period:	\$ (4,680,018)	\$ (3,459,339)	\$ (13,147,800)	\$ (10,501,025)
Items not affecting cash				
Amortization	432,931	245,132	953,242	692,051
Stock-based compensation	179,482	61,751	484,006	156,909
	<u>(4,067,605)</u>	<u>(3,152,456)</u>	<u>(11,710,552)</u>	<u>(9,652,065)</u>
Changes in non-cash working capital items				
Accounts receivable	693,171	(197,727)	(2,022,783)	(2,948,306)
Unbilled receivables	96,396	(436,592)	(102,171)	97,844
Investment tax credits receivable	-	(338,329)	260,784	(147,206)
Inventory	(498,962)	(865,219)	5,168	(1,879,350)
Prepaid expenses	222,303	301,943	(426,796)	(132,451)
Accounts payable and accrued liabilities	(2,974,373)	3,065,071	1,697,644	3,585,921
Customer deposits	3,360,262	1,200,726	4,889,623	756,005
	<u>898,797</u>	<u>2,729,873</u>	<u>4,301,469</u>	<u>(667,543)</u>
	<u>(3,168,808)</u>	<u>(422,583)</u>	<u>(7,409,083)</u>	<u>(10,319,608)</u>
FINANCING ACTIVITIES				
Proceeds from issuance of common shares	3,375	67,900	6,285	8,824,624
Increase in bank indebtedness	-	349,977	-	349,977
Deferred share issuance costs	-	(975,023)	-	(975,023)
Repayment of long term debt	(48,695)	(80,043)	(172,187)	(139,629)
Repayment of obligation under capital lease	(2,736)	(2,562)	(8,076)	(7,564)
	<u>(48,056)</u>	<u>(639,751)</u>	<u>(173,978)</u>	<u>8,052,385</u>
INVESTING ACTIVITIES				
Acquisition of property and equipment (net)	(281,052)	(113,625)	(5,083,667)	(645,471)
Decrease in cash and cash equivalents	(3,497,916)	(1,175,959)	(12,666,728)	(2,912,694)
Cash and cash equivalents, beginning of period	21,635,177	1,175,959	30,803,989	2,912,694
Cash and cash equivalents, end of period	\$ 18,137,261	\$ -	\$ 18,137,261	\$ -

Supplemental disclosure of cash flow information

Cash paid during the period:

Interest	\$ 1,882	\$ 832	\$ 7,245	\$ 8,748
Income taxes	-	-	-	-

See accompanying notes

1. NATURE OF BUSINESS

IMRIS is a supplier of surgical imaging solutions designed to provide surgeons with near real time images during a surgical procedure to assist them in making decisions that ultimately result in improved patient outcomes. The Company's flagship product IMRISneuro is an integrated operating room that uses IMRIS' patented technology to move a magnetic resonance imaging scanner into an operating room from an adjacent suite and position it directly over the patient for imaging during the surgical procedure, without the need to move the patient. The Company's products are currently focused on the neurosurgical market, however the Company is currently developing a solution for MR guided interventional cardiac procedures.

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applicable to interim financial statements. The statements follow the same accounting policies and methods of their application as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2007 except as described in note 3.

In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the unaudited consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The unaudited consolidated interim financial statements do not include all the disclosures required according to GAAP for annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the year ended December 31, 2007.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the following new accounting standards, as issued by the Canadian Institute of Chartered Accountants: Section 1535, Capital Disclosures; Section 3031, Inventories; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments - Presentation. These changes in accounting policy were applied in accordance with the transitional provisions contained in each of these sections.

Capital Disclosures

Section 1535, Capital Disclosures requires the Company to include additional information about its capital and the manner it is managed. Disclosure requirements for this section are contained in note 15 – Capital Risk Management.

Inventories

Section 3031, Inventories relates to the accounting for inventories and enhances the requirements for assigning costs to inventories. The Company accounts for its system sales using the percentage of completion method and thus is exempt from applying Section 3031 for inventory relating to system sales. Application of the section on the remaining inventory does not have any significant effect.

Financial Instruments

Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, provide standards for disclosure and presentation about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with financial instruments. Disclosure and presentation requirements for these sections are contained in note 6 – Accounts Receivable, note 13 – Financial Risk Management, and note 14 – Financial Instruments.

4. FUTURE ACCOUNTING STANDARDS

The CICA has issued the following handbook sections:

Goodwill, Intangible Assets and Financial Statement Concepts

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. While the Company is currently assessing the impact of this new standard on its consolidated financial statements, management does not expect the standard to have a significant impact on the Company's consolidated financial results, which applies commencing with the Company's 2009 fiscal year.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA AcSB confirmed the effective date of the initial adoption of IFRS. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

5. CASH AND CASH EQUIVALENTS

	September 30, <u>2008</u>	December 31, <u>2007</u>
Cash (Overdraft)	\$ 6,685,692	\$ (614,005)
Short term investments	11,451,569	31,417,994
	<u>\$ 18,137,261</u>	<u>\$ 30,803,989</u>

Overdraft is a result of outstanding cheques being in excess of cash held.

Short term investments consist of investments in short term banker's acceptances, short term deposits and money market mutual funds.

6. ACCOUNTS RECEIVABLE

	September 30, <u>2008</u>	December 31, <u>2007</u>
Accounts receivable, trade	\$ 5,907,676	\$ 3,832,802
Commodity taxes receivable	190,992	223,115
Interest receivable	37,368	57,336
	<u>\$ 6,136,036</u>	<u>\$ 4,113,253</u>

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

As at September 30, 2008, trade accounts receivable of \$760,264 were past due but not impaired. The aging of these trade accounts receivable are as follows:

	<u>Current</u>	1 to 30 days <u>past due</u>	31 to 60 days <u>past due</u>	> 90 days <u>past due</u>
Accounts receivable, trade	\$ 5,147,412	\$ 20,645	\$ 494,853	\$ 244,766

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

7. INVENTORY

	September 30, <u>2008</u>	December 31, <u>2007</u>
Materials	\$ 2,481,380	\$ 2,177,701
Work in progress	160,553	469,400
	<u>\$ 2,641,933</u>	<u>\$ 2,647,101</u>

During the third quarter of 2008, the Company recorded inventory provisions of \$40,000 (Year to date - \$40,000)

8. LONG TERM DEBT

The long-term loan under the NRC Industrial Research Assistance Program results from a refundable contribution in the amount of \$495,000 under which the NRC contributed to funding certain research and development activities. The loan facility is unsecured, is non-interest bearing, and is repayable quarterly as to principal only until January 31, 2015 at a rate of 1% of the Company's gross revenues for the preceding quarter. It is expected that the outstanding balance will be paid during 2008 and therefore the \$39,406 balance has been classified as a current liability at September 30, 2008 (December 31, 2007 - \$211,593).

9. 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*

Issued and outstanding
Common Shares

	<u>Number of Shares</u>	<u>Stated Capital</u>
Balance as at December 31, 2007	27,348,013	\$ 65,985,620
Issued on exercise of options	4,500	7,200
<u>Balance as at September 30, 2008</u>	<u>27,352,513</u>	<u>\$ 65,992,820</u>

There are no preferred shares outstanding.

c) *Stock-based compensation plan*

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

	Nine months ended <u>September 30, 2008</u>	
	Number of options	Weighted average exercise price
Outstanding, beginning of period	3,399,300	\$2.75
Granted	437,551	4.87
Exercised	(4,500)	1.40
Forfeited	(70,782)	4.82
<u>Outstanding, end of period</u>	<u>3,761,569</u>	<u>\$2.96</u>

9. CAPITAL STOCK (continued)

The company recorded an expense of \$179,482 related to stock options during the third quarter of 2008 (2007 - \$61,751) and \$484,006 for the nine months ending September 30, 2008 (2007 - \$156,909) with a corresponding credit to contributed surplus. The fair value of option grants during the third quarter of 2008 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
Risk-free interest rate	3.12%	-	3.03%	4.29
Dividend yield	0%	-	0%	0%
Expected life of the options	4.2 years	-	4.2 years	4 years
Expected volatility of the underlying stock	56.95%	n/a	49.80%	n/a

Prior to the Company becoming a public enterprise, the minimum value method was utilized, which does not take into account the expected volatility of the underlying stock. For options issued on or after November 2, 2007, an expected volatility rate was used.

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

The weighted average fair value of stock options granted during the three months and nine months ended September 30, 2008, under the Black-Scholes option pricing model, and using the above assumptions was \$2.34 and \$2.07 (September 30, 2007 - \$Nil and \$0.35)

d) Contributed Surplus

	Nine months ended <u>September 30, 2008</u>	Nine months ended <u>September 30, 2007</u>
Balance, beginning of period	\$ 576,065	\$ 140,876
Stock based compensation expense for the period	484,006	156,909
Amount credited to share capital related to options exercised during the period	(915)	(9,800)
Balance, end of period	\$ 1,059,156	\$ 287,985

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 options totaling 3,761,569 (as at September 30, 2007 – 3,604,800) could dilute the loss per share.

10. SEGMENTED INFORMATION

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

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

	Three months ended		Nine months ended	
	<u>September 30,</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>	<u>September 30,</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>
North America	\$ 2,503,178	\$ 7,854,614	\$ 10,190,759	\$ 13,905,493
Asia Pacific	2,366,255	115,174	7,027,882	115,174
	<u>\$ 4,869,433</u>	<u>\$ 7,969,788</u>	<u>\$ 17,218,641</u>	<u>\$ 14,020,667</u>

During the three months ended September 30, 2008, revenues from three individual customers totalled \$4,155,297 which represents 85% of the total revenue. For the nine months ended September 30, 2008, revenues from four individual customers totalled \$14,419,507 which represents 84% of the total revenue. The revenues from each of those customers, individually accounted for more than 10% of the total revenue for the three and nine months ending September 30, 2008.

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

11. RELATED PARTY TRANSACTIONS

The Company leases air travel time from a company which is wholly owned by a significant shareholder of IMRIS Inc. The amount charged to travel expenses during the three months ended September 30, 2008 totaled \$106,386 (September 30, 2007 – \$299,703) and \$319,832 for the nine months ended September 30, 2008 (2007 - \$443,682). The transactions were priced using an estimated third party comparable cost and were recorded at the exchange amount. The payable balance owing as at September 30, 2008 was \$87,150 (December 31, 2007 - \$88,466)

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 three months ended September 30, 2008 totaled \$32,000 (September 30, 2007 – \$16,000) and \$96,000 for the nine months ended September 30, 2008 (2007 - \$16,000). The transactions were priced using arms length pricing and were recorded at the exchange amount. The payable balance owing to as at September 30, 2008 was \$Nil (December 31, 2007 - \$Nil)

12. DEFINED CONTRIBUTION EMPLOYEE PENSION PLAN

The Company began a defined contribution Employee Pension Plan for all its employees on March 1, 2008. Contributions to this Plan are expensed as incurred. The Company makes a matching contribution equal to 50% of the employee's contribution, to a maximum of 3% of the employee's annual remuneration (subject to regulatory maximums). These Employer contributions vest immediately with the employee. The expense for the defined contribution plan during the three months ended September 30, 2008 totaled \$53,482 (September 30, 2007 - \$Nil) and \$106,923 for the nine months ended September 30, 2008 (2007 - \$Nil).

13. 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. The finance department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

a) *Market Risk*

i. Foreign exchange risk

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

The balances in foreign currencies at September 30, 2008 are as follows:

	<u>US Dollars</u>
Cash and cash equivalents	\$ 2,362,687
Accounts receivables	5,551,283
Unbilled receivables	799,254
Accounts payable and accrued liabilities	<u>(2,402,978)</u>
	<u>\$ 6,310,246</u>

Based on the above net exposures as at September 30, 2008, and assuming that all other variables remain constant a 10% depreciation of the Canadian dollar or a 10% appreciation of the Canadian dollar against the various currencies would result in increases/(decreases) in net earnings as follows:

Canadian Dollar depreciates 10%	\$ 671,537
Canadian Dollar appreciates 10%	(671,537)

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 is 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 incomes 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.

13. FINANCIAL RISK MANAGEMENT (continued)

b) *Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk of the Company at period end is the carrying value of its financial assets. The Company manages its credit risk on cash and cash equivalents by dealing solely with reputable banks and financial institutions. The Company's North American customers are large credit worthy medical hospitals and thus there is very little exposure to credit risk. When selling internationally, the Company uses irrevocable letters of credit to reduce its exposure to credit risks. The Company reviews the collectability of its accounts receivable and would record an allowance for doubtful accounts receivable if accounts were determined to be uncollectible. The loss would be recognized in the income statement within 'Administrative expense'. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable is uncollectible. For the three months ended September 30, 2008, revenues from three individual customers totalled \$4,155,297 which represents 85% of the total revenue. (September 30, 2007; three customers represented 97% of the total revenue). For the nine months ended September 30, 2008, revenues from four individual customers totalled \$14,419,507 which represents 84% of the total revenue. (September 30, 2007; three customers represented 95% of the total revenue). The Company's September 30, 2008 receivables include balances owing from three individual customers who respectively account for 38%, 30% and 10% 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 following are the contractual maturities of the undiscounted cash flows of financial liabilities as at September 30, 2008:

	Less than 3 <u>months</u>	3 to 6 <u>months</u>	6 to 9 <u>months</u>	9 months <u>to 1 year</u>	Over 1 <u>year</u>
Accounts payable and accrued liabilities	\$ 5,063,389	\$ 325,873	\$ 283,402	\$ 29,099	\$ 10,362
Long term debt	\$ 39,406				

14. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, unbilled receivables and accounts payable and accrued liabilities are a reasonable estimate of their fair values because of the short-term maturity of these instruments. As at September 30, 2008, the effective rate of return on short-term investments is approximately 2.78% (December 2007 – 4.35%).

The fair value of the NRC Industrial Research Assistance Program (IRAP) loan approximates its carrying value as it is anticipated the loan will be repaid during the current year.

15. CAPITAL RISK MANAGEMENT

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

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

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.

During the year ended December 31, 2007 the Company completed its Initial Public Offering in order to meet its capital objectives.

16. COMPARATIVE FIGURES

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

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