



CONSOLIDATED FINANCIAL STATEMENTS

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 and 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 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 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 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, whose report follows.

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

Ron Sabourin
Executive Vice President, Finance and Administration
and Chief Financial Officer
Winnipeg, Canada

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of
IMRIS Inc.

We have audited the consolidated balance sheets of IMRIS Inc. as at December 31, 2007 and 2006 and the consolidated statements of loss and comprehensive loss and deficit and cash flow 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 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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

Chartered Accountants
Winnipeg, Manitoba
February 29, 2008



IMRIS INC.
Consolidated Balance Sheet
December 31, 2007
(In CDN dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (note 5)	30,803,989	2,912,694
Accounts receivable	4,055,917	22,646
Unbilled receivables	805,731	704,536
Investment tax credits receivable (note 4h)	260,784	338,561
Inventory (note 6)	2,647,101	542,829
Prepaid expenses	479,653	302,062
	39,053,175	4,823,328
Property, plant & equipment (note 7)	4,320,462	3,576,448
Accumulated amortization	(1,555,860)	(659,912)
	2,764,602	2,916,536
Goodwill	6,462,808	6,462,808
Other intangible assets (note 8)	368,646	413,330
	6,831,454	6,876,138
Total assets	48,649,231	14,616,002
Liabilities and Shareholders' equity		
Current Liabilities		
Accounts payable and accrued liabilities	4,014,481	1,819,399
Customer deposits	7,135,834	5,543,665
Current portion of long term debt (note 9)	211,593	173,873
Current portion of capital lease obligation (note 10)	10,858	10,169
	11,372,766	7,547,106
Long term liabilities		
Long term debt (note 9)	-	211,593
Long term portion of capital lease obligation (note 10)	8,624	19,482
	8,624	231,075
Total liabilities	11,381,390	7,778,181
See note 13 for Commitments		
Shareholders' equity		
Share capital (note 11b)	65,985,620	18,107,332
Warrants (note 11c)	-	93,264
Contributed surplus (note 11d)	576,065	140,876
Deficit	(29,293,844)	(11,503,651)
	37,267,841	6,837,821
Total liabilities and shareholders' equity	48,649,231	14,616,002

Approved on behalf of the Board of Directors

H. David Graves, Chairman, President,
and Chief Executive Officer

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

See accompanying notes

Consolidated Financial Statements

IMRIS INC.
 Consolidated Statement of Loss and Comprehensive Loss
 Year ended December 31, 2007
 (In CDN dollars)

	2007	2006
Sales	17,445,058	4,304,138
Cost of sales	15,180,438	2,673,942
Gross profit	2,264,620	1,630,196
Operating expenses		
Administrative	5,300,845	2,893,314
Sales and marketing	3,497,318	2,336,674
Customer support and operations	3,899,824	1,268,260
Research and development	3,334,511	2,257,691
Amortization	940,632	625,455
Total operating expenses	16,973,130	9,381,394
Loss before the following	(14,708,510)	(7,751,198)
Other expense (income)		
Foreign exchange loss (gain)	84,228	116,255
Interest income	(222,545)	(52,590)
Amortization of financing expense	-	141,033
Total other expense (income)	(138,317)	204,698
Loss before taxes	(14,570,193)	(7,955,896)
Income taxes		
Current	-	-
Future	-	-
Total taxes	-	-
Loss and comprehensive loss for the year	(14,570,193)	(7,955,896)
Basic loss per share (note 11e)	(0.75)	(0.64)
Diluted loss per share (note 11e)	(0.75)	(0.64)

IMRIS INC.
 Consolidated Statement of Deficit
 Year ended December 31, 2007
 (In CDN dollars)

	2007	2008
Deficit, beginning of year	(11,503,651)	(3,547,755)
Dividends (note 11(b)(xiii))	(3,220,000)	-
Loss for the year	(14,570,193)	(7,955,896)
Deficit, end of year	(29,293,844)	(11,503,651)



IMRIS INC.
Consolidated Cash Flow
Year ended December 31, 2007
(In CDN dollars)

	2007	2006
OPERATING ACTIVITIES		
Loss for the year:	(14,570,193)	(7,955,896)
Items not affecting cash		
Amortization	940,632	625,455
Amortization of financing charges	-	141,033
Compensation expense relating to stock options	444,989	118,338
	(13,184,572)	(7,071,070)
Changes in non-cash working capital items		
Accounts receivable	(4,033,272)	441,688
Unbilled receivables	(101,195)	156,456
Investment tax credits receivable	77,777	(190,657)
Inventory	(2,104,269)	1,440,454
Prepaid expenses	(177,591)	(267,348)
Accounts payable and accrued liabilities	2,195,081	579,155
Customer deposits	1,592,169	4,556,617
	(2,551,300)	6,716,365
	(15,735,872)	(354,705)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	44,555,223	5,592,600
Repayment of long term debt	(173,873)	(43,619)
Repayment of obligation under capital lease	(10,169)	(2,439)
	44,371,181	5,546,542
INVESTING ACTIVITIES		
Capital asset purchases	(744,014)	(3,134,333)
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,891,295	2,057,504
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,912,694	855,190
CASH AND CASH EQUIVALENTS, END OF YEAR	30,803,989	2,912,694
Supplemental disclosure of cashflow information:		
Interest paid	\$ 20,673	\$ 15,398
Income taxes paid	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the following new accounting standards relating to financial instruments, as issued by the Canadian Institute of Chartered Accountants: Section 3855 Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 1530, Comprehensive Income; Section 3251 - Equity and Section 3865, Hedges. These changes in accounting policy were applied in accordance with the transitional provisions contained in each of these sections.

Financial Instruments

Section 3855, Financial Instruments – Recognition and Measurement, and Section 3861, Financial Instruments – Disclosure and Presentation, provide guidance for the recognition, measurement, presentation and disclosure of financial assets, financial liabilities and non-financial derivatives. These standards require financial assets, liabilities and derivatives to initially be recognized at fair value. After initial recognition, financial instruments are measured at fair value, amortized cost or cost, depending on the classification of the financial instruments. These standards also require the Company to recognize and measure derivative instruments embedded in host contracts that were issued on or after January 1, 2003.

The following is a summary of the Company's financial instruments, their classifications and measurement basis, and the financial statement impact of adopting the new standards.

- 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. This classification had no impact on the Company's financial statements at the time of adoption.
- Accounts receivable and unbilled receivables are classified as loans and receivables and are measured at amortized cost. This classification had no impact on the Company's financial statements at the time of adoption.
- Accounts payable and accrued liabilities and long term debt are classified as other liabilities and are measured at amortized cost. This classification had no impact on the Company's financial statements at the time of adoption.

The carrying value of cash and cash equivalents equals fair value. The carrying values of accounts receivable, unbilled receivables and accounts payable and accrued liabilities approximate their fair value due to their short term nature. The carrying value of long term debt approximates its fair value because it is anticipated that the outstanding balance will be repaid within the year.

Comprehensive Income

Section 1530, Comprehensive Income, establishes standards for the reporting and display of comprehensive income. The Company does not have any items that required separate recognition as other comprehensive income and therefore the adoption of this section did not have any impact in the Company's financial statements.



2. CHANGES IN ACCOUNTING POLICIES (continued)

Hedges

Section 3865, Hedges, establishes standards on when and how hedge accounting may be applied. The Company does not use derivative instruments and therefore the adoption of this section did not have any impact in the Company's financial statements.

3. ACCOUNTING POLICY DEVELOPMENTS

The following standards have been recently issued by the Canadian Institute of Chartered Accountants ("CICA") and will be implemented by the Company on their respective effective dates.

a) Inventory

The new Section 3031, Inventories, relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

b) Capital disclosures

As a result of new Section 1535, Capital Disclosures, the Company will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. This standard will impact the Company's disclosures provided but will not affect the Company consolidated results or financial position.

c) Goodwill and intangible assets

The new Section 3064, Goodwill and intangible assets, will replace Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

4. 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 subsidiary IMRIS, Inc. All intercompany transactions and balances are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) 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.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with maturities of three months or less from the date of acquisition.

d) Inventories

Materials are valued at the lower of cost 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.

e) Capital assets

The Company records all capital asset 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



4. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Goodwill and other intangible assets

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 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.

Deferred financing charges

In 2005, the Company recognized deferred financing charges which represented the fair value of shares that were issued at nominal value to the provider of the Company's operating line of credit. The deferred finance charges were being amortized on a straight-line basis over the estimated life of the credit facility. However, the Company ceased using this credit facility and therefore the unamortized amount of the financing charges were charged to operations during the year ended December 31, 2006.

g) 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 year ended December 31, 2007, or the year ended December 31, 2006.

h) 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 have been recorded.

In the year ended December 31, 2007, research and development tax credits of \$260,784 have been accrued as a receivable and have been recognized in operations as a reduction of research and development expense. In the 2006 fiscal year, the full amount of the research and development tax credits received pertaining to 2005 of \$432,431 had been recorded as a reduction of research and development expenses. As well in 2006, research and development tax credits of \$338,561 earned in the year had been accrued as a receivable and had been recognized in the financial statements by a \$190,657 reduction of research and development expenses and a \$147,904 reduction of capital assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) 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.

j) Warrants

The Company accounts for warrants by measuring the fair value of the warrant at the date on which the respective warrant is issued. When warrants are issued in conjunction with shares of the Company, the cash proceeds received are prorated between share capital and warrants based on the relative fair value of each. The fair value of the warrants is determined using the Black-Scholes option pricing model. When warrants are exercised, cash received upon exercise and the amounts previously credited to warrants are reversed and credited to share capital.

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 reverse.

l) Foreign currency translation

Foreign currency accounts are translated to Canadian dollars as follows:

Monetary items at the year-end exchange rate.

Non-monetary items at the exchange rate prevailing at the date of the transaction.

Revenue and expense items at the rate of exchange prevailing at the time of the transaction.

Exchange gains or losses on translation of foreign currencies are included in net earnings.

m) 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 from those estimates. Changes in estimates are recorded in the accounting period in which these changes are determined.



5. CASH AND CASH EQUIVALENTS

	2007	2006
Cash / overdraft	\$ (614,005)	\$ 262,968
Short term investments	31,417,994	2,649,726
	\$ 30,803,989	\$ 2,912,694

Short term investments consist of investments in short term commercial paper and treasury bills.

6. INVENTORY

	2007	2006
Materials	\$ 2,177,701	\$ 352,321
Work in progress	469,400	190,508
	\$ 2,647,101	\$ 542,829

7. PROPERTY, PLANT & EQUIPMENT

	2007		2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer software	\$ 185,337	\$ 74,284	\$ 163,917	\$ 27,159
Computer equipment	428,277	218,383	327,709	87,699
Office furnishings & equipment	405,950	135,408	325,809	57,524
Assembly & test equipment	2,198,615	892,523	1,975,830	462,509
Demonstration suite & tradeshow equipment	827,777	158,866	573,570	-
Leasehold improvements	242,415	68,374	177,523	23,416
Assets under capital lease	32,091	8,022	32,090	1,605
	4,320,462	1,555,860	3,576,448	659,912
Net book value		\$ 2,764,602		\$ 2,916,536

8. OTHER INTANGIBLE ASSETS

	2007	2006
Patents	\$ 368,646	\$ 413,330
Deferred financing charges	-	-
	\$ 368,646	\$ 413,330

During the year ended December 31, 2007, amortization of \$44,684 (2006 - \$44,684) relating to the patents was charged to operations. In 2006, the Company ceased to use the line of credit facility to which the deferred financing charges related and the total outstanding balance of these charges was charged to operations during the year ended December 31, 2006. As a result, total amortization expense for the year ended December 31, 2007 was nil (2006 - \$141,033).

9. LONG TERM DEBT

	2007	2006
NRC Industrial Research Assistance Program	\$ 211,593	\$ 385,466

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 balance has been classified as a current liability at December 31, 2007 (2006 - \$173,873).

10. OBLIGATION UNDER CAPITAL LEASE

The following schedule details the future minimum lease payments relating to the capital lease together with the balance of the obligation:

2008	\$ 11,816
2009	8,863
	20,679
Less amount representing interest	(1,197)
	19,482
Less current portion	(10,858)
	\$ 8,624

The obligation under capital lease is secured by the asset to which the capital lease relates. The lease expires in September 2009 and includes an implicit interest rate of 6.6%. This rate is approximately equal to what the Company could be expected to currently negotiate in the market, as such the carrying value approximates the fair value of the debt. During the year ended December 31, 2007, the Company paid interest expense on the obligation under capital lease of \$1,647 (2006 - \$514).



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, 2005	11,268,902	\$ 12,452,325
Shares issued April 17, 2006 pursuant to option exercise (i)	1,650	1,831
Shares issued July 8, 2006 for cash (ii)	1,488,889	3,350,000
Shares issued July 28, 2006 for cash (iii)	20,000	34,000
Shares issued July 31, 2006 for cash (iv)	52,000	117,000
Shares issued October 18, 2006 pursuant to exercise of warrants for cash (v)	2,072,545	2,062,176
Shares issued November 2, 2006 for cash (vi)	40,000	90,000
Issued and outstanding as at December 31, 2006	14,943,986	\$ 18,107,332
Shares issued upon exercise of warrants (vii)	3,108,818	3,093,264
Shares issued May 17, 2007 for cash (viii)	2,222,221	5,000,000
Shares issued June 6, 2007 for cash (ix)	219,547	493,981
Shares issued June 29, 2007 for cash (x)	81,510	183,398
Shares issued June 29, 2007 for cash (xi)	35,264	79,344
Shares issued September 24, 2007 for cash (xii)	70,000	77,700
Allocation of the Company's capital dividend account balance on November 1, 2007 (xiii)	-	3,220,000
Shares issued November 2, 2007 for cash (xiv)	6,666,667	35,730,601
Issued and outstanding as at December 31, 2007	27,348,013	\$ 65,985,620

- i) On April 17, 2006 pursuant to an option exercise, the Company issued 1,650 common shares at \$0.97 per share for cash consideration of \$1,600. As a result of this transaction \$231 was transferred from contributed surplus to share capital.
- ii) On July 8, 2006 the Company issued 1,488,889 common shares at \$2.25 per share for cash consideration of \$3,350,000.
- iii) On July 28, 2006 the Company issued 20,000 common shares to an employee for \$1.71 per common share for total cash proceeds of \$34,000.
- iv) On July 31, 2006 the Company issued 52,000 common shares to a director of the Company for \$2.25 per common share for total cash proceeds of \$117,000.

11. CAPITAL STOCK (continued)

b) Issued and outstanding (continued)

- v) On October 18, 2006 certain investors exercised 2,072,545 of their warrants to purchase common shares for consideration of \$0.965 per common share for total cash proceeds of \$2,000,000. As a result of this transaction \$62,176 was transferred from warrants to share capital.
- vi) On November 2, 2006 the Company issued 40,000 common shares to an employee for \$2.25 per common share for total cash proceeds of \$90,000.
- vii) On May 17, 2007 certain investors exercised 3,108,818 of their warrants to purchase common shares for consideration of \$0.965 per common share for total cash proceeds of \$3,000,000. As a result of the transaction \$93,264 was transferred from warrants to share capital.
- viii) On May 17, 2007 the Company issued 2,222,221 common shares for \$2.25 per common share for total cash proceeds of \$5,000,000.
- ix) On June 6, 2007 the Company issued 219,547 common shares for \$2.25 per common share for total cash proceeds of \$493,981.
- x) On June 29, 2007 the Company issued 81,510 common shares to employees for \$2.25 per common share for total cash proceeds of \$183,398
- xi) On June 29, 2007 the Company issued 35,264 common shares to employees for \$2.25 per common share for total cash proceeds of \$79,344.
- xii) On September 24, 2007 pursuant to an option exercise, the Company issued 70,000 common shares to an employee for \$0.97 per common share for cash consideration of \$67,900. In addition to the cash consideration, \$9,800 was transferred from contributed surplus to share capital.
- xiii) On November 1, 2007 the Company increased the paid up capital of the common shares of IMRIS in the amount of \$3,220,000 pursuant to the allocation of the balance in the Company's capital dividend account. The impact of the deemed dividend was an increase in both the share capital and the deficit of the Company by \$3,220,000.
- xiv) On November 2, 2007 the Company closed an initial public offering of its common shares raising gross proceeds of \$ 40,000,002, through the issuance of 6,666,667 common shares at a price of \$ 6.00 per share. The costs relating to the offering were \$4,269,401 and were netted against the proceeds as a reduction of share capital.

c) Warrants

	Number of Warrants	Fair Value
Warrants outstanding December 31, 2005	5,181,363	\$ 155,440
Warrants exercised during the year	(2,072,545)	(62,176)
Warrants outstanding December 31, 2006	3,108,818	\$ 93,264
Warrants exercised during the year	(3,108,818)	(93,264)
Warrants outstanding December 31, 2007	-	\$ -



11. CAPITAL STOCK (continued)

d) 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 governs 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 percent per quarter thereafter until fully vested after four years. Options expire six years after the date of the grant. The vesting of options granted under the plan ceases upon the death or the termination of employment of the participant or the participant ceases to be a director, and the participant thereafter has 90 days to exercise any vested and unexpired options, failing which any unexercised options shall lapse. The Board of Directors, at their discretion, may accelerate the vesting period of individual grants as deemed appropriate.

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

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

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,270,300	\$ 1.58	1,171,100	\$ 0.97
Granted	1,326,500	4.49	1,159,000	2.17
Exercised	(70,000)	0.97	(1,650)	0.97
Cancelled	-	-	-	-
Forfeited	(127,500)	1.09	(58,150)	1.02
Outstanding, end of year	3,399,300	\$ 2.75	2,270,300	\$ 1.58

11. CAPITAL STOCK (continued)

d) Stock-based compensation plan (continued)

The following table summarizes the options outstanding at December 31, 2007:

Year granted	Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
2005	930,800	570,300	\$ 0.97	2011
2006	161,000	69,938	1.71	2012
2006	990,000	373,875	2.25	2012
2007	519,000	16,875	2.25	2013
2007	738,500	100,000	6.00	2013
2007	60,000	-	5.65	2013
	3,399,300	1,130,988	\$ 2.75	

The estimated fair value of options granted during the year ended December 31, 2007 is \$2,025,295 (\$371,250 for the year ended December 31, 2006) and the options had a weighted average granted-date fair value of \$1.53 per option. This estimate of the fair value on the date of grant used the Black-Scholes option pricing model with the following assumptions:

	2007
Risk-free interest rate	approximately 4%
Dividend yield	0%
Expected life of the options	4.2 years
Expected volatility of the underlying stock	41.76%

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 a volatility rate of 41.76% was used.

The stock-based compensation costs calculated for the year ended December 31, 2007 and the year ended December 31, 2006 were \$444,989, and \$118,338 respectively. These amounts were expensed in the respective periods and credited to contributed surplus.

	2007	2006
Balance, beginning of year	\$ 140,876	\$ 22,538
Stock based compensation expense for the year	444,989	118,338
Amount credited to share capital related to options exercised during the year	(9,800)	-
Balance, end of year	\$ 576,065	\$ 140,876



11. CAPITAL STOCK (continued)

e) Loss per share reconciliation

The following table provides a reconciliation of the information used to calculate basic and diluted loss per share:

	2007	2006
Net loss - basic and diluted	\$ (14,570,193)	\$ (7,955,896)
Weighted average shares outstanding - basic	19,554,778	12,444,997
Dilutive effect of outstanding stock options and warrant	-	-
Weighted average shares outstanding - diluted	19,554,778	12,444,997
Basic loss per share	\$ (0.75)	\$ (0.64)
Diluted loss per share	\$ (0.75)	\$ (0.64)

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:

	2007	2006
Statutory tax rate	36.01%	36.66%
Tax recovery at statutory rate		
Effect of:	\$ (5,246,285)	\$ (2,950,402)
Non-deductible items	(226,451)	82,312
Benefit of future tax assets not recognized	5,472,736	2,868,090
Income tax expense	\$ -	\$ -

12. INCOME TAXES (continued)

b) Future income taxes

The Company has not recorded any future income tax assets in these financial statements because a valuation allowance has been provided against the full amount of the future income tax assets. The balances of future income taxes as at December 31, 2007 and December 31, 2006 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:

	2007	2006
Non-capital loss carryforwards	\$ 6,224,235	\$ 3,069,184
Capital Assets	421,300	(501,998)
Intangible assets	(55,361)	(55,250)
Research and development expenditures	2,208,566	1,836,409
Reserves not taken for tax purposes	1,388,346	2,030,090
Total future income assets	10,187,086	6,378,435
Valuation allowance	(10,187,086)	(6,378,435)
Net future income tax asset	\$ -	\$ -

c) Non-capital losses

As at December 31, 2007, Company had non-capital loss carryforwards of approximately \$20.8 million available to reduce the taxable income of future years which expire as follows:

2009	1.2 million
2012	0.7 million
2025 and beyond	18.9 million

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 \$7.5 million. These expenditures have been included in the calculation of future income taxes in note 12 (b) and have no expiry date.



12. INCOME TAXES (continued)

d) Scientific Research and Experimental Development (continued)

The Company also has unutilized federal and provincial scientific research and experimental development investment tax credits of approximately \$1.7 million and \$2.0 million respectively. The tax benefit of these investment tax credits has not been recognized in the financial statements. These credits expire in the following years:

2010	0.3 million
2012	0.3 million
2013	0.4 million
2014	0.5 million
2015	0.9 million
2016	1.1 million
2017	0.2 million

13. COMMITMENTS

As at December 31, 2007 the Company has entered into lease commitments for its office and manufacturing space. The aggregate remaining lease obligation is \$2,217,034 and the minimum annual lease payments required for the next five years are as follows:

	Current Facilities	Previous Facilities	Total
2008	\$ 402,754	\$ 72,224	\$ 474,978
2009	402,754	60,187	462,940
2010	402,754		402,754
2011	428,858		428,858
2012	447,504		447,504

During the 2006 fiscal year, the Company moved facilities and while it still has lease commitments relating to the previous facilities, it has been able to sublet this space to a third party for terms similar to those as the original lease agreement.

14. FOREIGN EXCHANGE AND CREDIT RISK

a) Foreign exchange risk

Foreign exchange risk is the risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. A significant amount of the Company's purchases and sales are denominated in foreign currencies and therefore it is exposed to foreign exchange fluctuations. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

b) Credit risk

The Company is subject to credit risk with respect to its accounts receivable and unbilled receivables to the extent that debtors do not meet their obligations. The Company's receivables include balances owing from three individual customers who respectively account for 44%, 25% and 16% of the combined accounts receivables and unbilled receivables balances.

15. 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:

	2007	2008
Canada	\$ 253,530	\$ 206,989
USA	16,460,270	4,097,149
India	727,034	-
China	4,224	-
	\$ 17,445,058	\$ 4,304,138

During the year ended December 31, 2007 revenues from four individual customers totalled \$15,893,798 which represents 91% of the total revenue. The revenues from each of these customers, all of whom were located in the United States, individually accounted for more than 10% of the total revenue. The capital assets relating to the Company's operations which are located in Canada are \$2,756,973 (2006 - \$2,908,367). The capital assets relating to the Company's operations which are located in the U.S. are \$7,629 (2006 - \$8,169). The entire goodwill balance is attributable to the Company's operations located in Canada.

16. RELATED PARTY TRANSACTIONS

The Company leases air travel time from 5343381 Manitoba Ltd, a company which is wholly owned by a significant shareholder of IMRIS Inc. The amount charged to travel expenses during the twelve month period ended December 31, 2007 totalled \$640,654 and the amount charged to share issuance costs totalled \$35,799 with respect to transactions with this related party (\$307,314 was charged to travel expenses for the year ended December 31, 2006) and were transacted on a cost recovery basis and recorded at the exchange amount. The payable balance owing to 5343381 Manitoba Ltd. as at December 31, 2007 was \$88,466 (2006 - \$240,000).

17. COMPARATIVE FIGURES

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