

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is dated as at February 25, 2009 and should be read in conjunction with the annual audited consolidated financial statements and associated notes thereto for the year ended December 31, 2008. In this MD&A, "IMRIS", the "Company", "we", "our" and "us" are used to refer to IMRIS Inc.

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

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.

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 adopts a novel approach to surgical MR imaging based on three principles; patient safety, surgical efficiency and financial utility. IMRISneuro uses patented technology to move the MRI scanner to the patient, rather than moving the patient to the scanner, 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 25 systems, 13 of which are installed and 12 of which are in the delivery phase. Of the 25 systems sold, 17 are in the United States, 5 are in Canada and 3 systems are in the Asia Pacific.

We are also currently developing our IMRIScardio system for use in interventional cardiovascular procedures. IMRIScardio utilizes many of the same system components and is intended to offer many of the same benefits of the IMRISneuro system. Cardiovascular interventionists can use information derived from MR images to measure the effectiveness of interventional procedures, 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.

The large capital expenditure associated with the purchase of an IMRISneuro system necessitates 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. In certain cases, the purchase and installation of our system may be part of a larger hospital construction project and our delivery cycle may be considerable longer. Our delivery cycle includes a phase for initial design and obtaining of permits, structural site construction activities carried out by the hospital and our subcontractors, 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 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 relatively short operating history and the limited number of systems sold and installed to date and the high dollar value associated with each sale, our revenues recorded from quarter to quarter may vary significantly depending on the number and stage of active projects in any given quarter. We expect that quarter over quarter results in the future will continue to fluctuate in the near term for these reasons.

Fourth Quarter and Annual 2008 Operating Highlights

Since the formation of the Company in 2005, we have focused our efforts on gaining market acceptance for our products and on ensuring the successful delivery of each customer installation by developing core competencies across all facets of the organization. Our efforts to date have resulted in increasing market acceptance for our IMRISneuro product suite, which is best demonstrated by the positive trend in our sales and by the consistent quarter over quarter backlog growth.

- During the fourth quarter of 2008 we received purchase orders for four new systems increasing our order backlog to \$67.8 million at the end of the year, a 114% increase over the order backlog at the end of 2007.
- Sales for the quarter were \$5.7 million versus \$3.4 million in the fourth quarter 2007, bringing the sales for the year to \$23 million, a 32% increase over the prior year.
- Gross profit on sales improved to 27.0% in the fourth quarter versus 13.6% in the fourth quarter 2007. For the year, the gross profit percentage increased to 22.1% from 13.0% in 2007.
- We continued to expand our global reach by establishing a presence in Europe, Japan and Australia. We successfully completed our first two installations in the Pacific Rim with deliveries in Mumbai, India and Beijing, China, and in the fourth quarter we received our first order for a system to be delivered in Australia.
- On the product development side, we completed the development and received regulatory approval in Canada and the US for a 3 Tesla version of our IMRISneuro suite, and we delivered the first 3 Tesla system to Calgary Foothills Hospital.
- The development of our IMRIScardio suite, the world's first integrated Angio-MR system was largely completed in the year and we remain on schedule with a planned release in early 2009 following receipt of regulatory approvals.
- Finally, during the fourth quarter we entered into a letter of intent with University Health Network and Princess Margaret Hospital in Toronto to enter into a collaborative research agreement to develop a system for use in image guided radiation therapy and interventional procedures. This development will once again capitalize on IMRIS' existing imaging technology and offers the potential to open a new market for our products.

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 audited consolidated financial statements and notes thereto for the year ended December 31, 2008:

Statement of Operations and Balance Sheet Data						
(In CDN dollars)						
(Unaudited)						
	Three months ended		Year ended			
	December 31		December 31			
	2008	2007	2008	2007	2006	
Sales	\$ 5,733,845	\$ 3,424,391	\$ 22,952,486	\$ 17,445,058	\$ 4,304,138	
Cost of sales	4,185,880	2,957,390	17,875,786	15,180,438	2,673,942	
Gross Profit	1,547,965	467,001	5,076,700	2,264,620	1,630,196	
As a percentage of sales	27.0%	13.6%	22.1%	13.0%	37.9%	
Operating expenses						
Administration	1,718,663	1,789,978	6,807,248	5,300,845	2,893,314	
Sales and marketing	1,741,730	1,068,448	6,450,458	3,497,318	2,336,674	
Customer support and operations	1,082,196	954,769	4,398,666	3,899,824	1,268,260	
Research and development	1,271,654	826,382	4,705,505	3,334,511	2,257,691	
Amortization	503,793	248,581	1,457,035	940,632	625,455	
	6,318,036	4,888,158	23,818,912	16,973,130	9,381,394	
Loss before the following	(4,770,071)	(4,421,157)	(18,742,212)	(14,708,510)	(7,751,198)	
Foreign exchange gain (loss)	880,516	127,621	1,118,553	(84,228)	(116,255)	
Interest income	74,463	224,368	660,767	222,545	52,590	
Amortization of finance costs	-	-	-	-	(141,033)	
Net loss for the year	\$ (3,815,092)	\$ (4,069,168)	\$ (16,962,892)	\$ (14,570,193)	\$ (7,955,896)	
Basic and fully diluted loss per share	\$ (0.14)	\$ (0.16)	\$ (0.62)	\$ (0.75)	\$ (0.64)	
Balance Sheet Data						
Cash and cash equivalents			18,597,333	30,803,989	2,912,694	
Total assets			39,848,770	48,649,231	14,616,002	
Customer deposits			12,647,883	7,135,834	5,543,665	
Long-term debt			-	8,624	231,075	
Total liabilities			18,884,493	11,381,390	7,778,181	
Shareholders' equity			20,964,277	37,267,841	6,837,821	

Operating Results

Sales

Sales for the fourth quarter were \$5.7 million versus \$3.4 million in the fourth quarter 2007, bringing the sales for the year to \$23.0 million, compared to \$17.4 million in 2007. The year over year increase was directly attributable to an increase in IMRISneuro system installations. The 2008 sales resulted mainly from deliveries against installations in five locations including two in the Asia Pacific region and three in the North America market.

Sales for the current year included \$22.2 million of revenues associated with new IMRISneuro system deliveries and \$0.8 million of revenues associated with extended maintenance contracts.

Gross Profit

Gross profit for the fourth quarter of 2008 was \$1.6 million or 27.0% of sales versus \$0.5 million or 13.6% of sales in the prior year. Gross profit for the 2008 year increased by approximately \$2.8 million over 2007, and as a percentage of sales it improved to 22.1% in 2008 as compared to 13.0% in 2007. The higher gross profit percentage in the year results primarily from the reduction of discounts initially offered in order to penetrate the market 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. Notwithstanding the year over year margin improvement, gross profit for 2008 was negatively impacted by a final net loss of \$0.2 million recorded in the first quarter of 2008 associated with costs overruns on two strategic customer sites announced in 2007.

Operating expenses

Operating expenses for the fourth quarter of 2008 increased 29% to \$6.3 million compared to \$4.9 million in the fourth quarter of 2007. For the year end December 31, 2008, operating expenses were \$23.8 million, an increase of \$6.8 million or 40% over the previous year. The increase is reflected across all major functional areas of the Company, as the Company continued to build capacity and to develop its core competencies. The growth in operating expenses in 2008 is largely attributable to increased staff. As we move forward into 2009 we believe the Company is now adequately staffed to handle the anticipated growth in demand for IMRISneuro in the near to mid-term and therefore we anticipate that our operating expenses will remain relatively stable in the near term.

Administrative expenses for the fourth quarter of 2008 were \$1.7 million versus \$1.8 million in the prior year. Administrative expenses were \$6.8 million for the year ended December 31, 2008 as compared to \$5.3 million during 2007. This year over year increase is primarily comprised of increased staff related expenses of \$1.5 million due to higher salary and recruiting costs, higher costs associated with public company reporting and investor relations (\$0.2 million) and higher insurance costs (\$0.2 million) due to the increased activity level, offset in part by somewhat lower travel costs (\$0.2 million) and lower various other expenses (\$0.2 million).

Sales and marketing expenses increased 56% to \$1.7 million in the fourth quarter of 2008 compared to \$1.1 million in 2007. Sales and marketing expenses were \$6.5 million for the year ended December 31, 2008 as compared to \$3.5 million during the same period in 2007. This year over year increase was largely attributed to an increase in sales staffing including the establishment of our presence in China, Japan, Europe, Australia and India (\$1.7 million); higher sales commission expenses (\$0.6 million); and increased travel costs (\$0.6 million).

Customer support and operations expenses were \$1.1 million for the quarter ending December 31, 2008 compared to \$1.0 million in the same period in 2007. For the year ended December 31, 2008, customer support and operation expenses were \$4.4 million as compared to \$3.9 million during the same period in 2007. This increase is primarily comprised of increased staff-related expenses (\$0.6 million) partially offset by decreases in other customer support and operations expense.

Research and development expenses for the fourth quarter of 2008 were \$1.3 million or 51% higher than the \$0.8 million recorded in the same period in 2007. Research and development expenses were \$4.7 million for the year ended December 31, 2008 as compared to \$3.4 million during the same period in 2007. This year over year increase is primarily comprised of increased staff-related expenses (\$0.6 million) and development costs of \$0.9 million attributable to product enhancements, the addition of new components and new features to IMRISneuro and the development of our IMRIScardio system. These increases were partially offset by a reduction (\$0.2 million) in other research and development expenses.

Amortization expenses were \$0.5 million for the fourth quarter of 2008 compared to \$0.3 million in 2007. Amortization expense increased \$0.6 million to \$1.5 million for the year ended December 31, 2008 as compared to \$0.9 million during the same period in 2007. The quarterly and annual increases in amortization expense results primarily from the capital asset additions to the research and development test lab and IMRIScardio prototype.

The company had a foreign exchange gain of \$0.8 million in the fourth quarter of 2007 compared to \$0.1 in 2007. For the year ended December 31, 2008, the foreign exchange gain was \$1.1 million compared to a loss of \$0.1 million in 2007. The exchange gains during the year resulted primarily from the increase in value of the US dollar relative to Canadian dollars. The majority of the company's sales are denominated in US dollars, as such we have held US dollars during the period and we are positively impacted as the US dollar strengthens against the Canadian dollar.

Net loss for the period

Our net loss for the fourth quarter 2008 was \$3.8 million compared to \$4.1 million in 2007. For the year ended December 31, 2008 the net loss was \$17.0 million, an increase of \$2.4 million over 2007. The increase in the loss for the year was mainly due to increased staffing costs which were partially off set by higher gross profit.

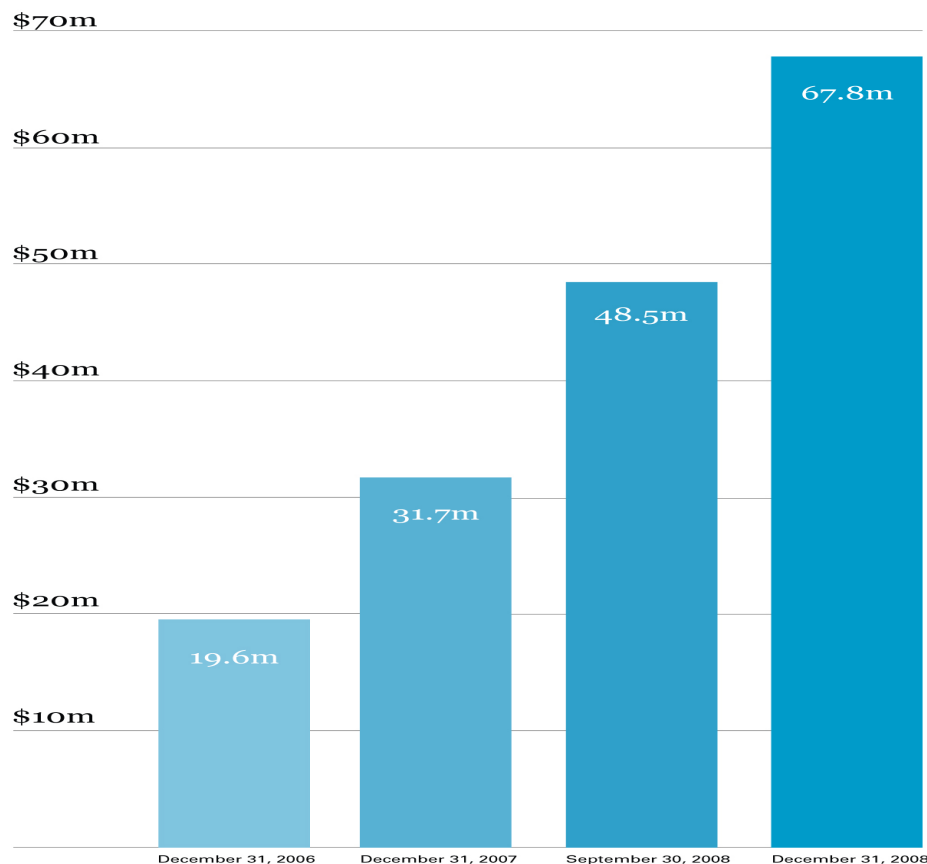
Summary of Quarterly Results

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

(In CDN dollars)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(Unaudited)	2007	2007	2007	2007	2008	2008	2008	2008
Sales	\$ 3,566,293	\$ 2,484,586	\$ 7,969,788	\$ 3,424,391	\$ 4,158,136	\$ 8,191,072	\$ 4,869,433	\$ 5,733,845
Cost of sales	2,637,464	2,318,242	7,267,342	2,957,390	3,640,443	6,623,274	3,426,189	4,185,880
Gross Profit	928,829	166,344	702,446	467,001	517,693	1,567,798	1,443,244	1,547,965
As a percentage of sales	26.0%	6.7%	8.8%	13.6%	12.5%	19.1%	29.6%	27.0%
Operating expenses								
Administration	834,894	1,406,197	1,269,776	1,789,978	1,741,635	1,613,014	1,733,936	1,718,663
Sales and marketing	687,250	1,006,347	735,273	1,068,448	1,322,545	1,638,278	1,747,905	1,741,730
Customer support and operations	769,203	1,195,937	979,915	954,769	1,027,280	1,151,870	1,137,320	1,082,196
Research and development	943,983	866,634	697,512	826,382	903,844	1,110,014	1,419,993	1,271,654
Amortization	214,131	232,788	245,132	248,581	250,698	269,613	432,931	503,793
	3,449,461	4,707,903	3,927,608	4,888,158	5,246,002	5,782,789	6,472,085	6,318,036
Loss before the following	(2,520,632)	(4,541,559)	(3,225,162)	(4,421,157)	(4,728,309)	(4,214,991)	(5,028,841)	(4,770,071)
Amortization of finance costs	-	-	-	-	-	-	-	-
Foreign exchange (loss) gain	1,883	8,900	(222,632)	127,621	52,492	(45,218)	230,763	880,516
Interest income (expense)	5,892	3,830	(11,545)	224,368	271,305	196,939	118,060	74,463
Net loss for the period	\$ (2,512,857)	\$ (4,528,829)	\$ (3,459,339)	\$ (4,069,168)	\$ (4,404,512)	\$ (4,063,270)	\$ (4,680,018)	\$ (3,815,092)
Basic and diluted loss per share	\$ (0.17)	\$ (0.26)	\$ (0.17)	\$ (0.16)	\$ (0.16)	\$ (0.15)	\$ (0.17)	\$ (0.14)

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, including the next twelve months of revenues to be derived from executed service contracts.

During the fourth quarter of 2008, we received purchase orders for four new systems. Our order backlog increased to \$67.8 million as at December 31, 2008 compared to \$48.5 million as at September 30, 2008 and \$31.7 million at the end of the prior year. The company has achieved backlog growth in every quarter since 2005. We have been able to convert past order backlog to recognized revenue as a result of the contracts underlying these orders and we are confident that we will convert our present order backlog to recognized revenue going forward.

Outlook

As previously noted, since the formation of the Company in 2005, we focused our efforts on gaining market acceptance for our products and on ensuring the successful delivery of each customer installation by developing core competencies across all facets of the organization. Our efforts to date have resulted in increased market acceptance for our IMRISneuro product suite, which is best demonstrated by the positive trend in our sales results and by the consistent quarter over quarter backlog growth. The order backlog at December 31, 2008 was \$67.8 million. As we move into 2009 we will be focusing our efforts on converting these orders into deliveries and generating new orders.

The installation of our systems is relatively complex. Following the receipt of a customer purchase order, the delivery cycle for one of our systems typically ranges from five to twelve months or more. In some cases, the delivery of our system is a part of a larger hospital construction project, and the delivery cycle may be considerably longer and may be subject to delays for a number of reasons beyond our control. While IMRIS generally has little influence on the overall construction schedule of our customers, we believe that by taking an active role in managing each customer program that we can minimize the potential for delays and shorten our delivery cycle. A group of dedicated program managers works directly with each customer to keep those elements of the delivery cycle that are within the Company's control on schedule.

Looking ahead, we expect an improvement in our gross profit margins. As previously noted, in our established markets, we no longer need to provide discounts to early adopters to penetrate the market. We have implemented focused programs to reduce the direct costs of our systems, which we believe will lead to further margin enhancement. Margins are also expected to improve in 2009 if the current foreign exchange rates remain stable.

Operating expenses in 2009 are expected to increase only modestly over 2008 levels. The Company has reached a point where we do not foresee the need to materially increase our staffing or resulting operating expenses to meet the anticipated growth in operations over the next 12 months.

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. We recognize that the current economic climate may impact the spending decisions of some potential customers, and we will continue to monitor the situation and take the necessary measures to ensure the long term sustainability and growth of our business.

Our strategies for near-term growth and value-creation include the continued focus on commercializing our IMRISneuro products globally and through the introduction and development of new products such as IMRIScardio which we believe will open entirely new markets and revenue streams for the Company. We have an adequate cash position, with a substantial order backlog, providing us with the required 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 for IMRISneuro, carefully managing our expenses and improving our gross profit margins.

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 \$18.6 million as at December 31, 2008, an increase of \$0.6 million over September 30, 2008, and a decrease of approximately \$12.2 million from the cash balance of \$30.8 million at December 31, 2007. The decrease in cash year over year resulted from the operating loss of \$17.0 million and capital spending of \$5.5 million, offset in part by favorable changes in working capital including customer deposits of \$5.5 million. The capital spending in 2008 resulted primarily from the purchase of test bed equipment for our 3 Tesla and IMRIScardio programs.

The following table sets forth the summary statement of cash flows for the periods indicated and should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

Statements of Cash Flows			
(In CDN dollars)			
(Unaudited)			
	Year ended		
	December 31		
	2008	2007	Change
Cash flows:			
From Operating Activities	\$ (6,458,088)	\$ (15,735,872)	\$ 9,277,784
Used in Financing Activities	(216,166)	44,371,181	(44,587,347)
Used in Investing Activities	(5,532,402)	(744,014)	(4,788,388)
Net decrease	(12,206,656)	27,891,295	(40,097,951)
Cash and cash equivalents, opening	30,803,989	2,912,694	
Cash and cash equivalents, closing	\$ 18,597,333	\$ 30,803,989	\$ (12,206,656)

Operating Activities

The cash used in operating activities for the year ended December 31, 2008 was approximately \$6.5 million. The cash used in the year was comprised of the operating loss (excluding non-cash related items) for the year of approximately \$14.9 million offset by an \$8.4 million increase in working capital. This increase in working capital relates mainly to an increase in customer deposits (\$5.5 million) and accounts payables and accrued liabilities (\$2.2 million) and decreases in receivables (\$0.7 million) and inventory (\$0.5 million), partially offset by increases in prepaid expenses (\$0.7 million).

Financing Activities

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

Investing Activities

The cash used in investing activities for year ended December 31, 2008 was approximately \$5.5 million and was used entirely for capital equipment purchases. Capital expenditures for the year ended December 31, 2008 included \$4.3 million required for development of our 3 Tesla and IMRIScardio programs. The remainder of expenditure was for capital equipment required as a result of increased staffing levels.

Liquidity and Capital Resources Summary

Our cash and cash equivalents as at December 31, 2008 totaled \$18.6 million. This cash position, together with our expectation that we will generate positive cash flow from operations including the customer deposits on future orders, is expected to provide sufficient liquidity to meet the anticipated needs of existing projects including the funding of current research and development programs and budgeted capital asset expenditures.

Long-term Debt and Contractual Obligations

Long-Term Debt

	December 31, 2008	December 31, 2007
Long-term debt (current and long term portions)	\$Nil	\$211,593

The long-term debt was 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 was unsecured, non-interest bearing and repayable quarterly at a rate of 1% of gross revenues for the preceding quarter until repaid. The loan was repaid during 2008.

Lease Commitments

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

2009	\$ 577,195
2010	439,170
2011	203,365
2012	23,820
Total	\$ 1,243,550

Outstanding Share Data

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

	Authorized	December 31, 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		\$1,228,193	\$576,065

There were no changes in the outstanding share data from December 31, 2008 to the date of this MD&A.

As at December 31, 2008 a total of 3,697,226 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 December 31, 2008 were \$11.4 million and were invested in short term bank deposits. Of this total, \$1.5 million was denominated in U.S. dollars.

Our accounts receivable at December 31, 2008 were \$1.2 million, all of which is considered current (less than 60 days old). \$0.9 million of the total accounts receivable were denominated in U.S. dollars.

Related Party Transactions

The Company leases air travel time from 5343381 Manitoba Ltd., a company which is wholly owned by Centara Corporation, a corporation controlled by David Graves, our Chief Executive Officer. The amount charged to travel expenses with respect to transactions conducted on an estimated third party comparable cost basis with this related party during 2008 was \$319,832 versus \$640,654 during 2007. There were no charges to deferred share issuance costs in 2008 (2007 - \$35,799).

As at December 31, 2008, the balance payable to this related party was \$41,580 versus \$88,466 as at December 31, 2007.

The Company utilized consulting services from Hobson Equities Inc., a company that is controlled by Blaine Hobson, 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 year was \$96,000 (2007 - \$16,000).

The balance payable to this related party was \$Nil as at December 31, 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 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 audited consolidated financial statements for the year ended December 31, 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 20 – 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 18 – Financial Risk Management and note 19 – 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.

Disclosure and Internal Controls

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

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

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

No material changes have been made to the Company's internal controls during the last quarter of the year.

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

Lack of product diversity

Currently, our 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.

Additional Information

Additional information about relating to IMRIS Inc. can be found on the SEDAR website at www.sedar.com.