

Immersive Media Corp.
Consolidated Financial Statements
June 30, 2007 and 2006

To the Shareholders of Immersive Media Corp.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them. Their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

"Myles M. McGovern"

Myles M. McGovern
Chief Executive Officer

"David G. Anderson"

David G. Anderson
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Immersive Media Corp. as at June 30, 2007 and 2006 and the consolidated statements of loss, deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These 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 June 30, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
October 19, 2007

Meyers Norris Penny LLP

Chartered Accountants

Immersive Media Corp.
Consolidated Balance Sheets
As at June 30

	<i>2007</i>	<i>2006</i>
Assets		
Current		
Cash and cash equivalents	10,130,540	2,679,543
Accounts receivable	1,492,705	648,931
Inventory <i>(Note 3)</i>	702,323	460,708
Prepaid expenses and deposits	128,540	178,325
	12,454,108	3,967,507
Property and equipment <i>(Note 4)</i>	1,799,062	917,386
Intangible assets <i>(Note 5)</i>	1,338,419	214,448
Goodwill <i>(Note 6)</i>	2,647,000	-
	18,238,589	5,099,341
Liabilities		
Current		
Accounts payable and accruals	928,495	481,474
Current portion of long-term debt	19,365	24,237
	947,860	505,711
Long-term debt <i>(Note 7)</i>	50,192	61,884
Future income taxes <i>(Note 12)</i>	61,711	-
	1,059,763	567,595
Shareholders' Equity		
Share capital <i>(Note 8)</i>	33,393,533	16,157,773
Contributed surplus <i>(Note 9)</i>	1,710,940	1,318,003
Deficit	(17,925,647)	(12,944,030)
	17,178,826	4,531,746
	18,238,589	5,099,341

Going concern *(Note 1)*
 Commitments *(Note 14)*
 Subsequent event *(Note 17)*

Approved on behalf of the Board of Directors:

(signed) "Myles M. McGovern"

Myles M. McGovern
 Director

(signed) "David G. Anderson"

David G. Anderson
 Director

The accompanying notes are an integral part of these consolidated financial statements

Immersive Media Corp.
Consolidated Statements of Loss
For the years ended June 30

	<i>2007</i>	<i>2006</i>
Revenue	3,305,543	1,503,674
Cost of sales	1,349,041	568,193
Gross margin	1,956,502	935,481
Expenses		
Sales and marketing	1,535,531	1,287,505
Research and development	2,966,944	1,054,264
General and administrative	1,393,178	944,591
Amortization	609,439	56,251
Stock-based compensation	508,004	401,657
	7,013,096	3,744,268
Loss before other income (expense) and income taxes	(5,056,594)	(2,808,787)
Other income (expense)		
Foreign exchange loss	(191,749)	(98,754)
Interest and other income	140,726	62,870
	(51,023)	(35,884)
Net loss before income taxes	(5,107,617)	(2,844,671)
Future income tax recovery	126,000	-
Net loss	(4,981,617)	(2,844,671)
Loss per share (Note 10)		
Basic	(0.18)	(0.13)
Diluted	(0.18)	(0.13)

The accompanying notes are an integral part of these consolidated financial statements

Immersive Media Corp.
Consolidated Statements of Deficit
For the years ended June 30

	<i>2007</i>	<i>2006</i>
Deficit, beginning of year	(12,944,030)	(10,099,359)
Net loss	(4,981,617)	(2,844,671)
Deficit, end of year	(17,925,647)	(12,944,030)

The accompanying notes are an integral part of these consolidated financial statements

Immersive Media Corp.
Consolidated Statements of Cash Flows
For the years ended June 30

	<i>2007</i>	<i>2006</i>
Cash provided by (used for) the following activities		
Operating activities		
Net loss	(4,981,617)	(2,844,671)
Items not involving cash:		
Amortization	609,439	56,251
Stock-based compensation	508,004	401,657
Future income taxes	(126,000)	-
Unrealized foreign exchange (gains) losses	(11,029)	4,325
Write-down of inventory	188,663	-
	(3,812,540)	(2,382,438)
Changes in non-cash working capital:		
Accounts receivable	(843,774)	(503,969)
Inventory	(550,993)	(14,857)
Prepaid expense and deposits	49,785	(163,591)
Accounts payable and accruals	306,140	348,847
	(4,851,382)	(2,716,008)
Financing activities		
Issue of common shares	15,664,564	3,455,977
Issue of long-term debt	-	94,635
Payments on long-term debt	(16,564)	(8,514)
	15,648,000	3,542,098
Investing activities		
Property and equipment additions	(887,407)	(681,470)
Acquisition of Freestone Systems, Inc.	(2,449,954)	-
	(3,337,361)	(681,470)
Net effect of translation of foreign currency cash	(8,260)	(4,325)
Change in cash and cash equivalents	7,450,997	140,295
Cash and cash equivalents, beginning of year	2,679,543	2,539,248
Cash and cash equivalents, end of year	10,130,540	2,679,543

The accompanying notes are an integral part of these consolidated financial statements

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

1. Nature of operations, incorporation and going concern

Immersive Media Corp. (“IMC” or the “Company”) is an advanced digital imaging company, offering related hardware, software, camera and post-production services. IMC also captures immersive imagery data which is available for licensing.

IMC was incorporated under the Business Corporation Act of Alberta, Canada on February 17, 2004. On May 25, 2004, IMC acquired all of the shares of Immersive Media Company in exchange for IMC shares. This was a non-arms length transaction resulting in the shareholders of Immersive Media Company controlling IMC. Accordingly, these consolidated financial statements have been prepared on a continuity of interests basis and reflect the financial position, results of operation and cash flows as if IMC had owned Immersive Media Company since its incorporation on January 28, 1997.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has begun earning revenue from its technology, however, it has not yet achieved profitable operations and is dependent upon the successful market development for such technology to achieve profitable operations. The outcome of this development cannot be predicted at this time. These consolidated financial statements do not include any adjustments to assets, liabilities and shareholder’s equity that might be necessary should the Company be unable to continue in business and these adjustments may be material.

2. Significant accounting policies

These consolidated financial statements include the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of IMC and its wholly owned subsidiaries, Immersive Media Company and IMC Sensors, Inc. (formerly Freestone Systems, Inc.)

Cash and cash equivalent

Cash and cash equivalents include balances with banks and money market mutual funds.

Inventory

Inventory includes the cost, on a first-in-first-out basis, of equipment for sale, and the direct cost of acquiring immersive imagery data in instances where the data will be sold to an identified customer and revenue will be recognized in a future period. All inventory is valued at the lower of cost and net realizable value.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the declining balance method over the estimated useful lives of the assets as follows:

Computer software	30%
Equipment	20%
Furniture and fixtures	20%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over a period of five years.

2. Significant accounting policies *(continued from previous page)*

Long-lived assets

Long-lived assets consist of property and equipment and intangible assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from long-term assets' use and disposal are less than the assets' carrying amount. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in loss for the year.

Discounted cash flows are used to measure fair value of long-lived assets.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Intangible assets

Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized using the straight-line method over 3 to 15 years, based upon management's best estimate of the useful life of the asset.

Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Measurement uncertainty

The preparation of consolidated 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 the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Revenue recognition

Revenue for equipment sales and short term service contracts is recognized when the equipment is delivered and as the services are provided.

Revenue for longer term immersive imagery data capture services is recognized in accordance with contract terms.

In all cases ultimate collection must be reasonably assured to recognize revenue.

2. Significant accounting policies *(continued from previous page)*

Stock-based compensation

The Company accounts for its grants under stock option plans using the fair value method and the compensation expense is amortized over the vesting period of the options. A corresponding credit is made to contributed surplus at the time the compensation expense is recognized.

Cost of sales

Costs directly related to revenue are included in cost of sales. Costs of acquiring immersive imagery data for future sale, when there is no initial customer for that data, are expensed as incurred and included in research and development expense.

Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to purchase common shares at the average price during the period. The effect of anti-dilutive options and warrants is not included in the calculation of diluted earnings per share.

Research and development

The Company expenses development costs as incurred except where commercial production is anticipated and recovery is assured, in which case the costs are capitalized and amortized over the estimated period of production. When it is determined that costs are not likely to be recovered by future revenue, such costs are expensed. Research costs are expensed as incurred.

Foreign currency translation

The operations of subsidiaries are translated into the reporting currency, Canadian dollars, using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All other transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Gains and losses on translation are reflected in income when incurred.

Recent account pronouncements

Financial instruments, other comprehensive income and equity

As of July 1, 2007, IMC will be required to adopt the following sections of the CICA Handbook: Section 1530 - *Comprehensive Income*; Section 3251 - *Equity*; Section 3855 - *Financial Instruments - Recognition and Measurement*; and Section 3861 - *Financial Instrument - Disclosure and Presentation*.

New Section 3855 sets out comprehensive requirements for recognition and measurement of financial instruments. Under this standard, an entity would recognize a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value. After initial recognition, the measurement of financial assets would vary depending on the category of the asset: financial assets held for trading (at fair value with the unrealized gains and losses on assets recorded in income), held-to-maturity investments (at amortized cost), loans and receivables (at amortized cost), and available-for-sale financial assets (at fair value with the unrealized gains and losses on assets recorded in comprehensive income). Financial liabilities held for trading would be subsequently measured at fair value while all other financial liabilities would be subsequently measured at amortized cost using the effective interest method.

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

2. Significant accounting policies *(continued from previous page)*

In conjunction with the new standard on financial instruments as discussed above, CICA Handbook Section 1530 (*Comprehensive Income*) has also been issued. A statement of comprehensive income would be included in a full set of financial statements for both interim and annual periods under this new standard. Comprehensive income is defined as the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. The new statement would present net income and each component to be recognized in other comprehensive income. Likewise, the CICA has issued Handbook Section 3251 (*Equity*) which requires the separate presentation of: the components of equity (retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves); and the changes in equity arising from each of these components of equity.

IMC will complete its review of the impact of these standards on its consolidated financial statements during the first quarter of its 2008 fiscal year.

Accounting changes

As of July 1, 2007, IMC will be required to adopt revised Section 1506 – *Accounting Changes* of the CICA Handbook. Under revised Section 1506, changes in accounting policy are made only when required by a primary source of GAAP or the change results in more reliable and relevant information. The revised standard also clarifies that changes in accounting policy should be applied retroactively, unless otherwise permitted or when impractical to do so. Finally, the standard requires expanded disclosures concerning the effect of changes in accounting policies, estimates and corrections of errors, as well as disclosures of new primary sources of GAAP that have been issued but have not yet come into effect and have not been adopted. IMC does not expect application of this revised standard to have a material impact on its consolidated financial statements.

Financial Instruments – disclosures and presentation

As of July 1, 2008, IMC will be required to adopt the following sections of the CICA Handbook: Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation* that will replace Section 3861 – *Financial Instruments – Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and IMC is assessing the impact on its consolidated financial statements.

Capital disclosures

As of July 1, 2008, IMC will be required to adopt new Section 1535 – *Capital Disclosures*. Under new Section 1535, companies are required to disclose their objectives, policies and procedures for managing capital, as well as whether externally imposed capital requirements have been complied with. Section 1535 was issued in December 2006 and IMC is assessing the impact on its consolidated financial statements.

3. Inventory

	<i>2007</i>	<i>2006</i>
Equipment held for sale	566,565	460,708
Immersive imagery data	135,758	-
	<hr/> 702,323	<hr/> 460,708

During the year the Company wrote down obsolete inventory by \$188,663 (2006 – nil).

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

4. Property and equipment

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2007 Net book value</i>
Computer software	137,164	57,331	79,833
Equipment	1,741,505	312,487	1,429,018
Furniture and fixtures	108,848	23,497	85,351
Office equipment	196,194	60,698	135,496
Leasehold improvements	83,854	14,490	69,364
	2,267,565	468,503	1,799,062
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2006 Net book value</i>
Computer software	97,260	31,124	66,136
Equipment	750,250	98,840	651,410
Furniture and fixtures	48,624	4,751	43,873
Office equipment	154,510	33,721	120,789
Leasehold improvements	44,765	9,587	35,178
	1,095,409	178,023	917,386

Included in amortization expense is \$290,479 (2006 - \$40,110) related to property and equipment.

During the year equipment was acquired at an aggregate cost of nil (2006 – US\$91,819) by means of finance contracts.

During the year \$214,908 (2006 – nil) of inventory that was purchased in prior years was transferred to property and equipment.

5. Intangible assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2007 Net book value</i>
Incorporation Costs	56,607	56,009	598
Patents and technology	1,602,934	731,387	871,547
Customer assets	516,931	50,657	466,274
	2,176,472	838,053	1,338,419
	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2006 Net book value</i>
Incorporation Costs	56,607	55,176	1,431
Patents and technology	676,934	463,917	213,017
	733,541	519,093	214,448

Included in amortization expense is \$318,960 (2006 - \$16,141) related to intangible assets.

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

6. Acquisition of Freestone Systems, Inc.

Effective February 12, 2007 the Company acquired Freestone Systems, Inc. ("Freestone Systems") for consideration of \$2,328,005 (US\$2,000,000) in cash and 575,000 common shares at \$2.532 per share for \$1,456,129, plus transaction costs of \$121,949. A total of \$761,066 of the purchase price was retained in escrow and is payable to the former shareholders of Freestone Systems by December 31, 2007, subject to any indemnification claims. The acquisition was accounted for by the purchase method from the effective date.

Freestone Systems specialized in imaging product design for the security and asset management markets, mobile display and video conferencing industries. The following table summarizes the purchase price based on estimated fair values.

Assets acquired:	
Inventory	94,193
Capital assets	69,840
Goodwill	2,647,000
Technology assets	926,000
Customer assets	516,931
	4,253,964
Liabilities assumed:	
Accrued payables	140,881
Future income tax liability	207,000
	347,881
	3,906,083

7. Long-term debt

	2007	2006
Finance and capital lease contracts payable in equal installments of US\$1,804 including interest at 1.9% to 4.9%, on finance contracts and at 18.8% on capital leases to 2008 to 2010, with automotive equipment having a net book value of \$64,228 (2006 - \$102,561) pledged as collateral	69,557	86,121
Less: current portion	(19,365)	(24,237)
	50,192	61,884

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

8. Share capital

Authorized

Unlimited number of common shares, no par value

Issued

Common shares:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, June 30, 2005	20,127,791	12,585,195
Issued for cash	3,000,000	3,600,000
Fair value of warrants issued to agents	-	74,587
Issued on exercise of warrants	25,400	38,100
Issued on exercise of options	259,114	212,401
Share issue costs	-	(352,510)
Balance, June 30, 2006	23,412,305	16,157,773
Issued for cash – November 2006	2,200,000	3,850,000
Fair value of warrants issued to finders	-	48,687
Issued for cash – March 2007	4,400,000	11,000,000
Fair value of Broker units issued	-	517,698
Issued on exercise of warrants	1,227,709	1,886,544
Issued for acquisition (<i>Note 6</i>)	575,000	1,456,129
Issued on exercise of options	350,000	122,840
Contributed surplus related to exercised options	-	115,067
Share issue costs	-	(1,761,205)
Balance, June 30, 2007	32,165,014	33,393,533

Under the terms of a financing completed on March 22, 2007 the Company issued 4,400,000 units consisting of one share and one-half of one common share purchase warrant at a price of \$2.50 per unit. Each whole warrant is exercisable at a price of \$3.00 with a two year life. The Company also granted the underwriters the option to purchase 264,000 Broker Units at \$2.50 per unit until March 2009. Broker Units consist of one common share and one-half of one common share purchase warrant, exercisable at \$3.00 per full warrant, all of which are outstanding at June 30, 2007. The Broker Units were valued at \$517,698 using the Black-Scholes options pricing model using the same assumptions as described for stock-based compensation in Note 11 except for an expected life of two years.

Under the terms of a financing completed on November 9, 2006 the Company issued 2,200,000 units consisting of one common share and one-half of one common share purchase warrant at a price of \$1.75 per unit. Each whole warrant is exercisable at a price of \$2.50 with a two year life. As part of the financing 107,760 warrants were issued to certain finders exercisable at a price of \$2.50 per common share with a 16 month life. The finders warrants were valued at \$48,687 using the Black-Scholes options pricing model using the same assumptions as described for stock-based compensation in Note 11, except for an expected life of 16 months.

During the year ended June 30, 2006, the Company completed a private placement of 3,000,000 units at a price of \$1.20 per unit. Each unit consisted of one common share plus one half of one common share purchase warrant. Each whole warrant is exercisable at a price of \$1.50 per share with a two year life. In connection with this placement, 200,503 share purchase warrants were issued to agents at an exercise price of \$1.50 with a two year life. The warrants issued to agents were valued at \$74,587 using the Black-Scholes option pricing model using the same assumptions as described in Note 11 except for a two year life.

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

8. Share capital *(continued from previous page)*

5,873,213 shares were deposited under an escrow agreement dated March 10, 2005 (“the Escrow Agreement”). Pursuant to the terms of the Escrow Agreement, the issued and outstanding common shares will be held in escrow and released as follows: 10% on the issuance of the Final Exchange Bulletin (“the initial release”) and 15% on each of the dates which are six, twelve, eighteen, twenty-four, thirty and thirty-six months following the initial release. As at June 30, 2007, 1,865,621 shares remained in escrow.

Stock options and warrants

The Company has established a stock option plan whereby the Company may grant options to its directors, officers, employees and consultants.

The following table summarizes changes in the Company’s stock options:

	<i>Number of options</i>	<i>Weighted average exercise price</i>
Outstanding, June 30, 2005	1,858,920	0.45
Granted	626,500	1.23
Exercised	(259,114)	0.29
Cancelled	(140,886)	0.29
Outstanding, June 30, 2006	2,085,420	0.71
Granted	632,500	3.64
Exercised	(350,000)	0.35
Cancelled	(55,500)	0.90
Outstanding, June 30, 2007	2,312,420	1.56

Details of stock options outstanding and exercisable at June 30, 2007 are as follows:

<i>Exercise Price</i>		<i>Outstanding</i>			<i>Exercisable</i>		
<i>From</i>	<i>To</i>	<i>Number</i>	<i>Weighted average remaining life in years</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average remaining life in years</i>	<i>Weighted average exercise price</i>
0.27	1.00	1,198,920	2.2	0.57	1,198,920	2.2	0.57
1.01	2.00	481,000	3.6	1.28	397,000	3.6	1.26
2.01	3.00	92,000	4.5	2.09	-	-	-
3.01	3.90	540,500	4.7	3.90	267,500	4.7	3.90
		2,312,420	3.2	1.56	1,863,420	2.9	1.20

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

8. Share capital *(continued from previous page)*

The following table summarizes changes in the Company's warrants:

	<i>Number of warrants</i>	<i>Weighted average exercise price</i>
Outstanding, June 30, 2005	240,000	1.50
Issued	1,700,503	1.50
Exercised	(25,400)	1.50
Outstanding, June 30, 2006	1,915,103	1.50
Issued – November 2006	1,100,000	2.50
Issued – November 2006	107,760	2.50
Issued – March 22, 2007	2,200,000	3.00
Exercised	(1,182,729)	1.50
Exercised	(44,980)	2.50
Outstanding, June 30, 2007	4,095,154	2.59

9. Contributed surplus

Changes in contributed surplus are as follows:

Balance, June 30, 2005	1,032,947
Stock-based compensation expense	401,657
Transferred to share capital on exercise of options	(116,601)
Balance, June 30, 2006	1,318,003
Stock-based compensation expense	508,004
Transferred to share capital on exercise of options	(115,067)
Balance, June 30, 2007	1,710,940

10. Loss per share

For the year ended June 30, 2007, the basic weighted average number of common shares is 26,995,629 (2006 – 21,170,069).

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

11. Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and consultants using the “fair value method”, whereby compensation expense is recorded equal to the fair value of the option granted over the term of vesting.

The fair value for the options issued was estimated on the grant date using the Black-Scholes options pricing model with the following assumptions:

	<i>2007</i>	<i>2006</i>
Risk-free interest rate (%)	4.0 – 4.5%	4.0%
Expected volatility (%)	58 - 59%	66%
Expected life (years)	5	5
Expected dividend yield (%)	-	-

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company’s stock options.

12. Income taxes

	<i>As at June 30</i>	
	<i>2007</i>	<i>2006</i>
<i>Future income tax liabilities</i>		
Property and equipment	491,192	12,195
<i>Future income tax assets</i>		
Tax losses carried forward	4,805,081	3,212,556
Share issue costs	396,228	168,322
Property and equipment	-	1,478
	5,201,309	3,382,356
Valuation allowance	(4,648,406)	(3,370,161)
	552,903	12,195
Future income tax liability	61,711	-

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

12. Income taxes (continued from previous page)

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2007	2006
Loss before income taxes	(5,107,617)	(2,844,671)
Expected tax recovery (2007 – 38.19%) (2006 – 33.84%)	1,950,595	962,496
Tax effect of expenses not deductible for tax purposes:		
Change in valuation allowance	(1,278,245)	(635,384)
Stock based compensation	(170,791)	(135,920)
Tax effect of rate changes	(254,290)	(138,272)
Tax effect of share issue costs	-	102,227
Change in foreign exchange rate	(93,875)	(139,843)
Other	(27,394)	(15,304)
Future income tax recovery	126,000	-

As at June 30, 2007 the Company had the following losses and deductions available to reduce future years' income for tax purposes the future income tax effect of which has not been recorded in the consolidated financial statements except to the extent necessary to offset related future income tax liabilities:

	Year of expiry	Canada	United States
Net operating loss carry forward available until:	2014	96,729	-
	2015	988,280	-
	2020	-	289,891
	2021	-	596,424
	2022	-	371,877
	2023	-	882,347
	2024	-	919,039
	2025	-	2,071,014
	2026	1,513,377	819,308
	2027	2,468,892	1,959,194
		5,067,278	7,909,094

13. Related party transactions

During the year ended June 30, 2007, the Company rented office space for 2 months at US\$1,000 per month (year ended June 30, 2006 – US\$12,000) to a company which has two directors that are also Directors of the Company. During the year ended June 30, 2007, the Company subleased office space for four and one half months at \$8,000 per month (year ended June 30, 2006 – nil) from a company whose sole shareholder is an officer and Director of the Company. For the year ended June 30, 2007, the Company incurred \$172,397 (2006 – \$51,146) of legal fees from a law firm in which a Director of the Company is a partner. The transactions were in the normal course of operations and were measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

14. Commitments

The Company has entered into premises lease agreements with estimated minimum annual payments as follows:

Year ending	Amount
2008	100,000
2009	119,000
2010	82,000
2011	17,000
2012	nil

15. Financial instruments

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risk arising from these financial instruments.

Fair value

At June 30, 2007 and 2006 the estimated fair value of cash equivalents, accounts receivable, accounts payable and accruals approximate their carrying value due to the short-term nature of these items.

The fair value of long-term debt is estimated to approximate the carrying value as the rates of interest are comparable to current market rates for such instruments.

Foreign currency risk

The Company enters into transactions denominated in United States currency for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations. As at June 30, 2007, the following items are denominated in United States currency:

	<i>2007</i>	<i>2006</i>
Cash	294,922	166,554
Accounts receivable	1,356,032	554,606
Accounts payable	452,058	429,319

16. Segment information and significant customers

The Company operates under one operating and reporting segment as management has determined that the nature of operations and the way management runs the business meet the aggregation criteria specified by Canadian accounting standards. The Company's operations are in the following geographic areas:

	<i>2007</i>			<i>2006</i>		
	Canada	United States	Total	Canada	United States	Total
Revenue	207,645	3,097,898	3,305,543	97,906	1,405,768	1,503,674
Property and Equipment	140,691	1,658,371	1,799,062	120,592	796,794	917,386
Intangible Assets	-	1,338,419	1,338,419	-	214,448	214,448
Goodwill	-	2,647,000	2,647,000	-	-	-

During the year ended June 30, 2007 two customers accounted for 60% (2006 – one customer for 14%) of total revenue. These two customers accounted for 49% (2006 – one customer for 32%) of accounts receivable at June 30, 2007.

Immersive Media Corp.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2007 and 2006

17. Subsequent event

On July 12, 2007 the Company closed an underwritten private placement of 4,116,000 common shares at an issue price of \$4.85 per common share for proceeds, net of estimated issue costs, of \$18,650,000.

18. Comparative figures

Comparative figures for 2006 have been reclassified to conform to the current year's presentation.