

Immunotec Inc.

Consolidated Financial Statements
October 31, 2009 and 2008

February 12, 2010

Auditors' Report

To the Shareholders of Immunotec Inc.

We have audited the consolidated balance sheets of **Immunotec Inc.** as at October 31, 2009 and 2008 and the consolidated statements of (loss) earnings and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended. These 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 October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*¹

Montreal, Canada

¹ Chartered accountant auditor permit No. 8663

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Consolidated Balance Sheets

As at October 31

2009

2008

\$

\$

ASSETS

Current

Cash	2,262,821	6,138,454
Accounts receivable (note 3)	201,841	812,914
Income taxes receivable	70,306	118,692
Inventories (note 4)	3,941,847	2,979,230
Prepaid expenses	436,251	548,333
Future income taxes (note 15)	90,133	1,037,000

	7,003,199	11,634,623
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Long-term

Property, plant and equipment (note 5)	6,068,313	6,210,788
Intangible assets (note 6)	2,505,937	2,527,596
Goodwill	499,541	499,541
Future income taxes (note 15)	1,969,403	551,967
Other assets (note 7)	699,839	1,238,885

	18,746,232	22,663,400
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LIABILITIES AND SHAREHOLDERS` EQUITY

Current liabilities

Accounts payable	2,629,247	2,739,945
Accrued liabilities (note 9)	1,881,390	1,503,969
Customer deposits	308,557	261,735
Income taxes payable	-	46,538

	4,819,194	4,552,187
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Shareholders' Equity (Deficit)

Share capital (note 10)	3,465,548	3,465,548
Other equity - Stock options (note 11)	1,770,093	1,414,885
Contributed surplus (note 12)	11,337,796	11,332,143
(Deficit) Retained earnings	(2,646,399)	1,898,637

	13,927,038	18,111,213
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	18,746,232	22,663,400
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Approved by the Board of Directors



Director

Richard Patte



Director

James A. Northrop

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

	Number of common shares	Share capital \$	Other equity -Stock options \$	Contributed surplus \$	(Deficit) Retained earnings \$	Total \$
Balance - October 31, 2007	69,994,300	3,465,548	736,416	11,326,406	956,836	16,485,206
Net earnings	-	-	-	-	941,801	941,801
Stock-based compensation (note 11)	-	-	678,469	5,737	-	684,206
Balance - October 31, 2008	69,994,300	3,465,548	1,414,885	11,332,143	1,898,637	18,111,213
Net loss					(4,545,036)	(4,545,036)
Stock-based compensation (note 11)			355,208	5,653		360,861
Balance - October 31, 2009	69,994,300	3,465,548	1,770,093	11,337,796	(2,646,399)	13,927,038

Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income

Years ended October 31	2009 \$	2008 \$
REVENUES		
Network sales	37,909,574	31,757,078
Other revenue	6,815,130	6,303,316
	44,724,704	38,060,394
VARIABLE COSTS		
Cost of goods sold(excluding amortization) (note 4)	7,996,599	6,346,411
Sales incentives - Network	20,241,290	15,434,576
Other variable costs	4,154,662	3,228,664
Margin before expenses	12,332,153	13,050,743
Expenses		
Administrative	6,870,331	5,839,084
Marketing and Selling	5,096,634	3,839,729
Quality and Development costs	946,790	806,842
Amortization	1,079,729	1,044,053
Financial charges (revenues)	36,099	(80,771)
Impairment on other asset	736,000	-
Restructuring charges (note 17)	437,805	-
	15,203,388	11,448,937
(Loss) Earnings from continuing operations before income taxes	(2,871,235)	1,601,806
(Recovery of) Income taxes (note 15)		
Current	39,789	58,949
Future	(236,677)	601,056
(Loss) Earnings from continued operations	(2,674,347)	941,801
Loss from discontinued operations (note 16)	(1,870,689)	-
Net (loss) earnings and comprehensive (loss) income	(4,545,036)	941,801
Basic Net (loss) earnings per share		
Continuing operations	(0.038)	0.013
Discontinued operations	(0.027)	-
Total basic net (loss) earnings per share	(0.065)	0.013
Diluted Net (loss) earnings per share		
Continuing operations	(0.038)	0.013
Discontinued operations	(0.027)	-
Total diluted net (loss) earnings per share	(0.065)	0.013
Weighted average number of common shares outstanding during the period (note 14)		
Basic	69,994,300	69,994,300
Diluted	69,994,300	70,034,549

Consolidated Statement of Cash Flows

Years ended October 31	2009	2008
	\$	\$
Operating activities		
Net (loss) earnings	(4,545,036)	941,801
Loss from discontinued operations	(1,870,689)	-
(Loss) from continuing operations	(2,674,347)	941,801
<u>Add (deduct) non cash items:</u>		
Amortization of property, plant and equipment	537,881	547,430
Amortization of intangible assets	541,848	496,623
Net gain on disposal of property, plant and equipment and intangible assets	(46,232)	-
Impairment on other asset	736,000	-
Future income taxes	(236,677)	601,056
Stock-based compensation	360,861	684,206
Cash (used) received prior to working capital variation	(780,666)	3,271,116
Net change in non-cash working capital (note 19)	73,824	(151,040)
Cash (used) received in operating activities	(706,842)	3,120,076
Investing activities		
Additions to property, plant and equipment	(873,752)	(142,771)
Additions to intangible assets	(520,211)	(601,959)
Proceeds from disposal of property, plant and equipment	524,600	-
Research and development tax credits	-	(111,450)
Other receivable	(196,954)	-
Cash used in investing activities	(1,066,317)	(856,180)
Net (decrease) increase in cash from continuing activities	(1,773,159)	2,263,896
Net (decrease) in cash from discontinued activities		
Operating activities	(1,970,623)	-
Investing activities	(131,851)	-
	(2,102,474)	-
Net (decrease) increase in cash during the year	(3,875,633)	2,263,896
Cash at the beginning of year	6,138,454	3,874,558
Cash at the end of year	2,262,821	6,138,454

Immunotec Inc.

Notes to the Consolidated Financial Statements

For years ended October 31, 2009 and 2008

1. Nature of activities

Immunotec is a Network Marketing Company involved in the direct selling of scientifically validated natural health products and dietary supplements. The Company offers a lucrative business opportunity to its independent distributors.

This business model provides Immunotec's network of people with an opportunity to earn a steady and recurring income, directly based on their level of involvement and performance. Individual distributors build their business by conveying product information and selling product to customers and by building teams of distributors to expand geographic penetration and market coverage to larger populations of customers.

Headquartered with manufacturing facilities near Montreal, Canada, the Company also subcontracts certain distribution logistics and capacity to support its activities in the United States, the Netherlands and Trinidad and Tobago.

Immunotec is incorporated under the Canada Business Corporations Act. Its common shares are listed on the TSX Venture Exchange (under the symbol "IMM").

2. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include the accounts of the Company and its wholly owned subsidiaries: Immunotec Research Inc., Immunotec International Healthcare Products Limited, Immunotec Medical Corp., 2458781 Canada Inc., Xtralife Industries Inc. and Immunotec (Korea) Inc. that was in operation from March 2009 to July 2009.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the year. The amounts recorded for the impairment of investment, allowance for sales return, estimated useful lives of depreciable assets and intangibles, valuation allowance for future income taxes and stock-based compensation are all based on estimates, and actual results could differ from those estimates.

Revenue recognition

The Company's revenues are derived from product sales and shipping revenue. Sales are recorded when products are shipped. The Company generally requires payment by credit card from its distributors, licensees and customers prior to shipment of products. An estimate of sales return and a discount based on promotional programs and other factors are recorded as a reduction of the revenue. The shipping revenue comes from the fees associated with the distribution of its product and are classified under other revenue. The shipping and handling costs are included in other variable costs.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. The net realizable value for the finished good is the selling price less selling costs in the ordinary course of business; for raw materials, it is replacement cost. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices.

Immunotec Inc.

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Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that cost may not be recoverable. Impairment exists when the carrying value of the asset or group of assets is greater than the undiscounted future cash flows expected to be provided by the asset or group of assets. The amount of impairment loss, if any, is the excess of the carrying value over the fair value.

Property, plant and equipment

Property, plant and equipment are recorded at cost less related accumulated amortization. Amortization is calculated on a straight-line basis using rates based on the estimated useful lives of the assets:

Buildings	25 years
Computer equipment	4 years
Office equipment	5 to 15 years
Telephone system	5 years

Research and development costs and tax credits

Research costs are charged against earnings in the year of expenditure. Development costs are charged against earnings in the year of expenditure unless a development project meets the criteria under GAAP for deferral and amortization. As at October 31, 2009 and 2008, the Company had not deferred any development costs.

Research and development tax credits are accounted for using the cost reduction method. Under this method, tax credits relating to eligible expenditures are deducted from the cost of the related assets or included in earnings against the related expenses in the period in which the expenditures are incurred, provided there is reasonable assurance of realization.

Intangible assets

Intangible assets are recorded at cost less related accumulated amortization. Amortization is calculated on a straight-line basis using rates based on the estimated useful lives of the intangible assets:

Software and websites	4 years
Patents and trademarks	15 years
Licenses	25 years

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis at October 31 or more frequently if events or circumstances indicate that it might be impaired. Recoverability of goodwill is determined at the reporting unit level using a two-step approach. First, the carrying value of the reporting unit is compared to its fair value, which is determined based on a combination of discounted future cash flows and a market approach. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. In this step, the amount of impairment loss, if any, represents the excess of the carrying value of goodwill over its fair value and the loss is charged to earnings in the period in which it is incurred. For the purposes of this impairment test, the fair value of goodwill is estimated in the same way as goodwill is determined in business combinations, that is, the excess of the fair value of the reporting unit over the estimated fair value of its net identifiable assets.

Immunotec Inc.

Notes to the Consolidated Financial Statements

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Translation of foreign currencies

For foreign currency transactions and those of the integrated foreign subsidiaries, the temporal method of translation of foreign currencies has been used. Monetary items are translated at the rate in effect at the balance sheet date, non-monetary items are translated at their historical rate (as well as the related amortization) and revenues and expenses are translated at the rate in effect at the transaction date or at the average exchange rates during the year, as appropriate. Translation gains and losses are included in the determination of net earnings for the year.

Income taxes

The Company provides for income taxes using the liability method. Under this method, current income taxes are based on taxable income, and future income taxes are based on temporary differences between the tax basis and book basis of assets and liabilities. Future income tax assets and liabilities are calculated based on the rate enacted or substantively enacted that, at the balance sheet date, will apply when it is expected that the asset will be realized or the liability settled. A valuation allowance is established for future income tax assets when it is more likely than not that an amount will not be realized.

Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the year.

Stock-based compensation plan

The Company has a stock-based compensation plan for which it uses the fair value method. Under this method, the stock-based compensation expense is measured at the fair value at the date of grant using an option pricing model and is recognized over the shorter of the vesting period of the options or the period until the employee is eligible to retire.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The Black-Scholes model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, valuation models usually require the input of subjective assumptions, including expected stock price volatility. All considerations paid for stock options and the amount previously included for these stock options are credited to share capital when they are exercised.

New accounting policies

On November 1, 2008, the Company adopted the new recommendation of Section 1400, "General Standards of Financial Statement Presentation", to include requirements to assess and disclose an entity's ability to continue as a going concern.

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") improved disclosures about financial instruments in the amendments to Section 3862, "Financial Instruments – Disclosures". The improved disclosures are about fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009.

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The company adopted EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". Under this new standard, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

These recommendations had no significant effect on the Company's consolidated financial statements.

Future accounting policies

In January 2009, the CICA issued the following new Handbook sections:

- i. Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standards ("IFRS") standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.
- ii. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, International Accounting Standard 27 (Revised), "Consolidated and Separate Financial Statements". The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

3. Accounts receivable

	2009	2008
	\$	\$
Trade, less provisions for doubtful accounts of \$174,646 (2008 - \$233,916)	73,110	327,906
Refundable research and development tax credits	89,527	194,979
Other receivables	39,204	290,029
	201,841	812,914

4. Inventories

	2009	2008
	\$	\$
Raw materials	1,333,472	1,433,121
Finished goods	2,608,375	1,546,109
	3,941,847	2,979,230

Immunotec Inc.
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During the year ended October 31, 2009, inventories in the amount of \$7,996,599 were recognized as cost of goods sold, including provisions for write-downs to net realizable value of \$100,284, and a reversal of previously recorded write-downs of \$84,609 primarily as a result of a change in estimate of unsalable inventory due to short dating, based on current estimates.

5. Property, plant and equipment

	2009		
	Cost \$	Accumulated amortization \$	Net \$
Land	752,633	-	752,633
Buildings	4,834,978	714,434	4,120,544
Computer equipment	1,752,058	1,595,888	156,170
Office equipment	1,933,434	1,186,063	747,371
Telephone system	299,302	7,707	291,595
	9,572,405	3,504,092	6,068,313
	2008		
	Cost \$	Accumulated amortization \$	Net \$
Land	944,633	-	944,633
Buildings	4,971,030	567,011	4,404,019
Computer equipment	1,718,725	1,502,881	215,844
Office equipment	1,592,705	946,413	646,292
	9,227,093	3,016,305	6,210,788

6. Intangible assets

	2009		
	Cost \$	Accumulated amortization \$	Net \$
Patents and trademarks	2,941,631	1,793,509	1,148,122
Licenses	481,500	72,683	408,817
Software	2,487,742	1,695,596	792,146
Websites	278,411	121,559	156,852
	6,189,284	3,683,347	2,505,937

Immunotec Inc.

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	2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Patents and trademarks	2,849,674	1,602,052	1,247,622
Licenses	481,500	52,850	428,650
Software	2,059,665	1,434,796	624,869
Websites	278,411	51,956	226,455
	5,669,250	3,141,654	2,527,596

7. Other assets

	2009	2008
	\$	\$
Investment	-	736,000
Non-Refundable research and development tax credits receivable	502,885	502,885
Other receivables	196,954	-
	699,839	1,238,885

8. Credit facilities

The Company has access to operating credit facilities of \$2,000,000 which bear interest at the Company's bank's prime rate plus 0.5% per annum, limited by certain conditions as to minimum tangible net worth and minimum debt-to-tangible-net-worth ratio. The credit facilities are secured by a first ranking moveable hypothec of \$5,000,000 on assets, including but not limited to accounts receivable, inventories and property, plant and equipment. The credit facilities were not drawn upon during the year and are renewable on an annual basis.

9. Accrued liabilities

	2009	2008
	\$	\$
General accruals	1,020,907	828,762
Accrued payroll	109,508	131,745
Accrued vacation	351,444	166,087
Provision for restructuring (note 17)	397,424	-
Provision for retirement	-	377,375
Accruals discontinued operations (note 16)	2,107	-
	1,881,390	1,503,969

10. Share capital

Authorized and issued

The authorized capital of the Company is as follows:

Unlimited number of common shares voting, participating, with no par value and with dividend rights at the discretion of the Board of Directors; and

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Unlimited number of preferred shares issuable in series with no par value. The Board of Directors is authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached thereto.

	2009	2008
Common shares	69,994,300	69,994,300

11. Other equity – Stock options

Pursuant to the Company's stock option plan (the "Plan"), the Company may grant stock options to its directors, officers, key employees and consultants. Options under the Plan will be granted for a maximum term of five years at an exercise price and/or on other terms determined by the directors, in accordance with regulatory policies. The maximum number of common shares reserved for options granted under the Plan is 3,518,528 shares.

	<u>2009</u>		<u>2008</u>	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Issued and outstanding – Beginning of year	2,712,500	0.94	1,622,500	1.13
Granted	275,000	0.44	1,137,500	0.68
Forfeited (note 12)	(100,000)	1.13	(47,500)	1.11
Issued and outstanding – End of year	<u>2,887,500</u>	0.89	<u>2,712,500</u>	0.94
Exercisable – End of the period	<u>1,398,324</u>	1.01	<u>527,500</u>	1.13

<u>Options issued and in circulation</u>				<u>Options exercisable</u>		
Issue date	Number	Exercise price \$	Weighted average remaining life (years)	Number	Exercise price \$	Weighted average remaining life (years)
December 2006	1,582,500	1.13	2.14	1,054,991	1.13	2.14
November 2007	700,000	0.66	3.01	233,333	0.66	3.01
February 2008	30,000	0.80	3.29	10,000	0.80	3.29
July 2008	300,000	0.56	3.68	100,000	0.56	3.68
March 2009	150,000	0.45	4.40	-	-	-
September 2009	125,000	0.42	4.90	-	-	-
	<u>2,887,500</u>			<u>1,398,324</u>		

During the year ended October 31, 2009, the Company granted 275,000 stock options to six members of its Board of Directors and two employees.

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Each unit entitles the holder to acquire one common share of the Company at the exercise price specified when granted. Options granted vest over a three-year period, at a rate of one third per year commencing one year following the date of grant. The options expire five years after the grant date.

The estimated fair value of each option granted has been determined using the Black-Scholes option pricing model and the following weighted-average assumptions:

Risk-free interest rate	1.85%
Volatility rate	52.90%
Expected dividend yield	Nil
Expected life	5 years

The weighted-average fair value of the 275,000 options has been estimated at \$0.4364. In accordance with Section 3870 of the CICA Handbook, the Company has recorded the expense for these options using the straight-line method from the date they were granted to the date they will become vested or forfeited.

For the year ended October 31, 2009, the Company has recorded the stock-based compensation expense of \$360,861 (2008 - \$684,206) charge to administrative expenses with corresponding credit recorded to other equity – stock options.

12. Contributed surplus

During the year ended 2009, from the 100,000 forfeited options presented in note 11, a total of 5,003 options recorded at a total fair market value of \$5,653 were vested. These vested options have been charged to other equity – stock options and credited to contributed surplus.

13. Business and geographic segment

The Company's operations involve only one reportable business segment, a direct-selling/network marketing system, being a system in which distributors sell natural health and dietary supplements directly to customers.

The net sales to external customers by geographic destinations are detailed as follows:

	2009	2008
	\$	\$
Canada	21,138,786	19,005,875
United States	19,982,051	15,404,451
Other countries	3,603,867	3,650,068
	<u>44,724,704</u>	<u>38,060,394</u>

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14. Weighted average number of common shares outstanding

	2009	2008
Weighted average number of outstanding basic common shares	69,994,300	69,994,300
Dilutive effect of stock options	-	40,249
	<hr/>	<hr/>
Weighted average number of outstanding diluted common shares	69,994,300	70,034,549

As at October 31, 2008, 2,712,500 stock options granted by the Company with an average exercise price of \$0.94 were outstanding. Of these options, 1,000,000 had a lower exercise price than the average quoted stock price during the year. The dilutive effect resulting from the difference between the exercise price and the average quoted stock price during the year has been averaged over the number of days these options were dilutive. As at October 31, 2009, all stock options were anti-dilutive.

15. Income taxes

The Company's effective income tax rate on income from continuing operations differs from the combined Federal and Provincial Canadian statutory tax rate as follows:

	2009 %	2008 %
Company's statutory tax rate	30.90	31.09
Effect of provincial and foreign tax rate differences	0.91	(0.05)
Losses arising from investment in subsidiaries	(3.96)	-
Prior year's tax adjustments and assessments	1.92	(4.30)
Non-taxable research and development tax credits	0.85	(1.25)
Other non-deductible items	(0.48)	1.55
Non-deductible stock-based compensation	(3.88)	13.27
Foreign exchange	-	1.36
Impact on future tax assets and liabilities resulting from tax rate changes	(11.14)	-
Tax benefits not recognized on losses	(8.01)	-
Others	(0.25)	(0.47)
	<hr/>	<hr/>
Effective income tax rate	6.86	41.20

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Future income tax assets and liabilities as at October 31:

	2009	2008
	\$	\$
Future income tax assets		1,279,741
Tax benefits on losses carried forward	1,694,744	
Unused research and development expenses	1,044,587	950,862
Capital assets, intangible assets and other long-term assets	445,409	265,062
Allowance for doubtful accounts	32,767	42,118
Restructuring charges, accounts payable and accrued liabilities	30,070	-
Financing and share issue costs	29,177	58,610
Other	15,079	-
Retirement benefits	15,178	62,377
		<u>2,658,770</u>
	3,307,011	
Valuation allowance	(1,200,761)	(911,376)
	<u>2,106,250</u>	1,747,39
Future income tax liabilities		
Capital assets, intangible assets and other long-term assets	45,081	-
Investment tax credit	-	158,427
Other	1,633	-
	<u>46,714</u>	158,427
Future income taxes, net	2,059,536	1,588,967

Future income taxes are classified as follows:

	2009	2008
	\$	\$
Current future income tax assets	90,133	1,037,000
Long-term future income tax assets	1,969,403	551,967
Future income taxes, net	2,059,536	1,588,967

As at October 31, 2009, the Company had approximately \$4,827,000 of losses carried forward available to reduce future taxable income. These losses expire as follows:

Year ending October 31	
2012	2,664
2025	1,126
2026	14
2029	1,023
	<u>\$4,827</u>

At October 31, 2009, the Company had approximately \$534,000 in unused investment tax credits to reduce future tax payable. These investment tax credits expire as follows:

Year ending October 31	
2019	214
2020	146
2021	31
2022	58
2023	85
	<u>\$534</u>

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16. Discontinued operations in South Korea

The company closed, in July 2009, the operation of its subsidiary located in South Korea (Immunotec (Korea) Inc.).

A former sub-licensee obtained from the Seoul Central District Court the issuance of an Executory Preliminary Injunction on July 13, 2009 against this subsidiary, ordering it to cease selling Immunocal products in South Korea. The subsidiary appealed the Injunction in November 2009. More information on the potential contingency is presented under note 18(b).

Negotiations initiated by the Company with the former sub-licensee to obtain the withdrawal of the Injunction failed, resulting in the decision to close the business since the appeals process to remove the Injunction against the subsidiary by the District Court could take many months.

The net operating loss incurred from February 3, 2009 to October 31, 2009 from the operations related to South Korea amounted to \$2,104,581, net of future income tax of \$233,892 and have been recorded in these consolidated financial statements. The total revenues for this period amounted to \$2,813,102.

17. Restructuring charges

During fiscal 2009, the Company reorganized its operations and downsized its corporate overhead. Costs associated with these activities were fully provisioned during this year-end but will be paid over the next twelve months.

18. Contingencies

- (a) The Company in the normal course of business is involved in legal proceedings with a consulting firm. The outcome of these proceedings cannot be determined at this time, and accordingly no provision has been recorded. The Company believes that the claims are ill-founded in fact and in law and the resolution thereof will not have a material effect on the Company's consolidated financial position.
- (b) On October 20, 2009, the aforementioned, former sub-distributor filed an action in damages for approximately \$1,000,000 against Immunotec (Korea) Inc., a subsidiary of the Company, alleging violation by the subsidiary of the sub-distributor's exclusive distributorship of Immunocal products in South Korea. The subsidiary has filed a defense and is contesting the claim, but the outcome of these proceedings cannot be determined at this time. Based on the information available at this time, the Company believes that the resolution of the foregoing proceedings will not have a material effect on the Company's consolidated financial position.

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19. Consolidated statements of cash flows

	2009	2008
	\$	\$
Accounts receivable	611,073	(307,548)
Income taxes receivable	48,386	(105,244)
Inventories	(962,617)	(295,981)
Prepaid expenses	112,082	(52,921)
Accounts payable	(110,698)	807,005
Accrued liabilities	375,314	(34,546)
Customer deposits	46,822	(82,564)
Income taxes payable	(46,538)	(79,241)
	<hr/>	<hr/>
Net change in non-cash working capital	73,824	(151,040)

Supplemental cash flow information:

Income taxes paid during the year	43,913	236,575
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20. Financial instruments

Classification of financial instruments

Cash is classified as "financial assets held for trading". Accordingly, it is carried at fair value, with any gains or losses arising from the revaluation at each period-end being included in consolidated earnings.

Accounts receivable are classified as "loans and receivables". Subsequent to their initial measurement at fair value, accounts receivable are measured at amortized cost using the effective interest rate method. Given the composition of the Company's accounts receivable, the amortized cost generally approximates fair value because of their short terms to maturity.

Accounts payable and accrued liabilities as well as customer deposits are classified as "other financial liabilities". Subsequent to their measurement at fair value, these financial liabilities are measured at amortized cost using the effective interest rate method.

Fair value

The Company has determined the fair value of its financial instruments based on estimates and assumptions.

The fair value of current financial assets and financial liabilities, which include cash, accounts receivable, accounts payable, accrued liabilities and customer deposits, is comparable to their carrying values due to their relatively short terms to maturity.

Credit risk

Financial instruments which potentially subject the Company to credit risk include cash and accounts receivable, with respect to which management believes there was no significant concentration of credit risk as at October 31, 2009 and 2008. The Company deals only with highly rated financial institutions and continually monitors its clients' credit and establishes its provision for doubtful accounts based on the credit risk applicable to each client.

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Interest rate risk

The Company is exposed to interest rate risk on its cash and does not currently hold any financial instruments to mitigate this risk. Cash balances bear interest at floating rates. Management does not believe that the impact of the interest rate fluctuations on the current level of cash will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net earnings and comprehensive income.

Currency risk

The Company is exposed to currency risks as transactions with customers outside Canada are predominantly denominated in U.S. dollars. These risks are partially offset by purchases and operating expenses incurred in U.S. dollars.

The Company's foreign subsidiaries are mainly integrated and therefore use the Canadian dollar as functional currency. Accordingly, they are subject to foreign currency fluctuations on their net earnings and working capital items.

As at October 31, 2009, the net exposure of the financial instruments is denominated in each currency.

	US dollars	Euros	Sterling Pounds
Net exposure	(99,470)	9,568	(31,920)
Equivalence CAD	107,816	15,209	56,669

As at October 31, 2009, a variation of 10% in the exchange rates compared to the actual period-end exchange rates, for each category of financial instruments held in different currency, would have a negative impact on the balance sheet and net earnings of \$12,198.

Liquidity risk

Liquidity risk is defined as the potential that the Company cannot meet a demand for cash or meet its obligations as they become due. The Company manages this risk by establishing detailed cash forecasts, as well as operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position, for adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of, growth requirements and capital expenditures. The Company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations. In managing its liquidity risk, the Company has access to a credit facility describe under note 8.

21. Capital management

In the context of managing its capital, the objective of the Company is to maintain a capital structure that allows multiple options to finance its development and growth along with providing the shareholders with an acceptable return. The Company defines the capital structure as shareholders' equity. The Company's capital at October 31, 2009 is \$13,927,038 (2008 - \$18,111,213). The Company's strategy consists of maintaining a flexible capital structure in order to respond to the economic conditions and adjusting accordingly. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, share repurchases, grant of stock options, payment of dividends, issuance of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company periodically monitors its capital structure.

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The Company is not subject to externally imposed capital requirements. The Company's strategy with respect to capital management remained unchanged during the year ended October 31, 2009.

22. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period. As well during the year, the Company has changed its presentation with respect to the amounts billed to a customer for shipping and handling costs. These amounts were previously netted against the costs in selling and administrative expenses. They are now classified as other revenues with corresponding charges in variable costs. Certain comparative figures totalling \$2,038,749 have been reclassified to conform to the presentation adopted in the current period. The shipping revenue have been reclassified under other revenues and corresponding amount was added to the shipping and handling costs included in other variable costs.