

## **Management's Discussion and Analysis of Operating Results and Financial Situation**

*The following analysis must be read in conjunction with the annual audited consolidated statements of Immunotec Inc. (the "Company") dated October 31, 2008.*

*This Management's Discussion and Analysis ("MD&A") has been prepared in accordance with the guidelines of National Instrument 51-102. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The audited consolidated financial statements and related management's report have been reviewed by the Audit Committee and approved by the Board of Directors. All amounts are expressed in Canadian dollars unless otherwise indicated.*

### **OVERVIEW**

The Company is incorporated under the *Canada Business Corporations Act* and is engaged primarily in the development and marketing of natural health products, dietary supplements, food, vitamins and personal care products, some of which are manufactured on its behalf by third parties. The products are distributed and sold in Canada and the United States through a network marketing system and in other countries under exclusive distributorship agreements.

The Company operates from a 37,000 square foot facility located in Vaudreuil-Dorion, Quebec, Canada, as well as a manufacturing facility in Blainville, Quebec, Canada and a distribution centre located in Swanton, Vermont, USA.

Upon commencing its operations in 1996, the Company made a strategic decision to market its products through a direct-selling/network marketing system, being a system in which distributors sell products directly to customers and sponsor other individuals as distributors. Distributors derive compensation both from the direct sales of products and from sales volume generated by sponsored distributors. Network marketing involves person-to-person communication and training with respect to the products and the system. The Company believes this feature makes network marketing a more effective means of marketing its products than in-store retail sales.

As at October 31, 2008, the Company's product line was comprised of 15 different products which are distributed and sold by independent distributors through a network marketing system of over 15,000 active distributors in Canada and the United States. It considers an active distributor to be a distributor who has purchased its products within the last twelve months. Its products are also sold internationally in 17 countries under exclusive distribution agreements.

## **HIGHLIGHTS**

The Company, for the year ended October 31, 2008, realized net sales of \$36,021,645 compared to \$34,528,236 in 2007, an increase of \$1,493,409 or 4.3%. By individual markets and in their respective local currencies, net sales in Canada posted an increase of 2.2%, the U.S. market posted an increase of 8.1% and International markets realized a 49.5% increase.

For the year, net sales by final destination were as follows; 50.2% in Canada and 40.0% in the United States, with the remainder 9.8%, through export to other International markets.

The operating results of the Company are a direct result of certain key performance indicators. These indicators not only affect current performance but are indicative of future performance. New distributors are independent contractors that purchase a distributor kit and agree to market the products of the Company to their circle of acquaintances. New customers are those who agree to purchase the products of the Company on a regular basis through an auto ship program called ImmunoDirect. For the year, the number of new distributors recruited into the business opportunity increased by 24% and in the fourth quarter increased by 23%. The number of new customers increased by 16.5% for the year but decreased by 4.1% in the fourth quarter. This decrease in customer acquisition is due to increased emphasis on acquiring distributors versus customers as their average monthly purchase pattern is approximately 50% greater than a customer.

In September 2008, at the Company's annual convention in New Jersey a number of marketing and sales tools designed to create a highly duplicatable system for acquiring new distributors into the business were launched. These tools included an attractive new distributor kit inclusive of brochures, catalogs, a DVD/CD as well as a redesigned web site which is the business center for the independent distributors.

These tools were augmented by a new product: FITT (Future in Thinning Technology) meal replacement system as well as an aggressive monthly promotional offering.

## **FORWARD LOOKING STATEMENTS**

Some statements included in this management report contain forward-looking information about the Company's future financial positions, operating results and sales. They may be based on market expectations, management opinions and assumptions. Such information involves significant risks and uncertainties that are difficult to predict and rely on assumptions that may prove inaccurate. Actual results and events may differ materially from those forecasted in the forward-looking statements in this analysis.

The Company, unless required under securities regulations, declines any intention or obligation to update or revise the forward-looking statements as a result of new information, future events or other developments. More specifically, the forward-looking statements do not reflect the impact of mergers, acquisitions, business combinations or disposals of businesses that could be announced or completed after their formulation.

## DESCRIPTION OF THE BUSINESS

### Principal Products and Services

Most of the Company's products are considered to be natural health products in Canada and dietary supplements in the United States. The Company develops and markets the following products:

#### *Immunocal®/ HMS 90®*

The Company's flagship product has been called HMS 90 in Canada and Immunocal in the United States and in other countries. Effective mid-September 2008, HMS 90 became known as Immunocal in Canada. Immunocal represented over 52.8% of the Company's sales for the year ended October 31, 2008.

Immunocal (NPN: 80004370) is recognized by Health Canada's Natural Product Directorate as a 'natural source of the glutathione precursor cysteine for the maintenance of a strong immune system'.

#### *Immunocal Platinum®*

Immunocal Platinum is an enhanced form of Immunocal, targeted at the 50+ market, to support good health and well-being, buffer the effects of aging as well as for the maintenance of a strong immune system. Immunocal Platinum represented approximately 28.2% of the Company's sales for the year ended October 31, 2008.

#### *Other Products*

Other products sold include Concentrated Tart Montmorency Cherry Juice, Xtra Sharp®, Magistral®, PNT-200®, Naturally Sourced Calcium, Vitamin/Mineral Supplement, Omega-3, Skin Perfecting Cream, Thermal Action and Immunotec Toothpaste. In mid-September 2008, the Immunotec F.I.T.T. Meal Replacement system was launched, replacing the Pricena Health Shake.

### Distribution Strategy

The Company distributes over 89% of its product sales through a network marketing/direct sales system.

Direct selling, by definition, is the sale of a consumer product or service made through person-to-person contact, away from a fixed retail location. It is a system of selling products or services through a network of independent sales people (distributors) who serve as the conduit between a product and/or service and the end consumer. Both direct selling and network marketing provide an easier way to market the benefits of products – in particular, nutritional products or any other products requiring an explanation. Successful companies in the network marketing channel generate strong free cash flow due to limited needs for capital investment and limited costs to open new geographic markets. Network or multi-level marketing is a form of person-to-person direct selling through a network of vertically organized independent distributors who purchase products at wholesale prices from a company and then make retail sales to consumers. The Company's products are paid for on a cash or credit card basis prior to being shipped and its sales patterns do not reflect any significant seasonality.

### Market information

Generally, natural health products are distributed through the following sales channels: mass market retailers, including mass merchandisers, drug stores, supermarkets and discount stores, natural health food stores, network marketing, mail order, and the Internet.

According to the Direct Selling Association ("DSA"), in the United States, direct sales companies in 2007 accounted for US\$30.8 billion in sales generated by 15.2 million distributors. In the United States, one in 10 households had someone involved in a direct selling business – and 25% of households buy from someone selling products through a direct sales company. The DSA reports that 21.4% of US direct sales are "wellness" products (mostly weight-loss and supplements), 32.8% are personal care products, and household products at 25.6%. Face-to-face transactions represent 77.1% of sales, phone 8.8% and the Internet 11.4%. Worldwide, in 2007, approximately 67.7 million distributors sold more than US\$110.0 billion of product in some 170 countries.

Based on 2007 statistics, from the Canadian DSA, direct selling sales growth in Canada increased by 25% in the last two years to reach CA\$1.96 billion for Canadian DSA members, numbering 600,000 distributors. Wellness product sales represent 17.9% of the 2007 direct selling sales in Canada.

## Immunotec Research International

Immunotec Research International, a division of the Company, provides the Company's products to exclusive licensees in 17 countries outside of Canada and the United States. In certain countries, the products are distributed through direct selling while in others they are distributed through traditional retail sales channels. Gross profit on net sales to our international licensees is lower than on net sales to our distributors' network because the Company does not pay distributors incentives or incur marketing and distribution expenses in the licensed countries.

## Patents

As at October 31, 2008, the Company has been issued 75 patents and has 12 patent applications pending with respect to Canada, United States and other countries.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables summarize selected financial information from the Statement of Earnings and the Balance Sheets regarding the operations of the Company.

	Year Ended October 31, 2008	Year Ended October 31, 2007	Year Ended October 31, 2006
	(\$)	(\$)	(\$)
Net Sales	36,021,645	34,528,236	36,907,812
Cost of Sales	6,522,675	6,364,645	6,221,046
Sales Incentives	14,734,152	14,356,993	15,272,762
Selling, General and Administrative	13,163,012	12,360,304	10,315,734
Earnings before income taxes	1,601,806	1,446,294	5,098,270
Net Earnings	941,801	884,785	3,448,017
Net Earnings per share:			
Basic	0.013	0.013	0.052
Diluted	0.013	0.013	0.052
Weighted average number of common shares outstanding:			
Basic	69,994,300	68,198,574	66,374,054
Diluted	70,034,549	69,573,727	66,924,115
Cash Dividends Declared	-	-	2,033,770

	As at October 31, 2008 (\$)	As at October 31, 2007 (\$)	As at October 31, 2006 (\$)
<b>ASSETS:</b>			
Cash and equivalents	6,138,454	3,874,558	1,481,835
Accounts receivable	812,914	505,366	887,847
Other current Assets	4,683,255	3,728,109	3,744,153
Total current Assets	<u>11,634,623</u>	<u>8,108,033</u>	<u>6,113,835</u>
Other Assets	11,028,777	12,246,573	9,081,735
<b>TOTAL ASSETS</b>	<b><u>22,663,400</u></b>	<b><u>20,354,606</u></b>	<b><u>15,195,570</u></b>
<b>LIABILITIES:</b>			
Current Liabilities	4,552,187	3,475,800	3,548,523
Long Term Liabilities	-	393,600	11,571,590
<b>TOTAL LIABILITIES</b>	<b><u>4,552,187</u></b>	<b><u>3,869,400</u></b>	<b><u>15,120,113</u></b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share Capital	3,465,548	3,465,548	3,406
Other Equity-Stock Options	1,414,885	736,416	-
Contributed surplus	11,332,143	11,326,406	-
Retained Earnings	1,898,637	956,836	72,051
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>18,111,213</u></b>	<b><u>16,485,206</u></b>	<b><u>75,457</u></b>

### Summary of the last eight quarters of operations

The following table summarizes selected financial information regarding the operations of the Company for the last eight quarters.

	Q4 October 31, 2008 (\$)	Q3 July 31, 2008 (\$)	Q2 April 30, 2008 (\$)	Q1 January 31, 2008 (\$)	Q4 October 31, 2007 (\$)	Q3 July 31, 2007 (\$)	Q2 April 30, 2007 (\$)	Q1 January 31, 2007 (\$)
Net Sales	9,254,877	8,942,007	9,180,346	8,644,415	8,511,677	8,526,260	8,835,156	8,655,143
Cost of Sales	1,582,155	1,573,609	1,727,304	1,639,607	1,717,865	1,585,668	1,663,872	1,397,241
Sales Incentives	3,762,677	3,697,379	3,731,886	3,542,210	3,548,533	3,538,010	3,628,354	3,642,096
Selling, General and Administrative	4,063,566	3,173,318	3,028,620	2,897,508	3,898,285	2,700,584	2,895,287	2,866,147
Earnings before income taxes	(153,521)	497,701	692,536	565,090	(653,006)	701,998	647,643	749,659
Net Earnings	(157,477)	354,168	434,049	311,061	(612,794)	566,751	425,065	505,763
Net Earnings per share:								
Basic	(0.002)	0.005	0.006	0.004	(0.009)	0.008	0.006	0.008
Diluted	(0.002)	0.005	0.006	0.004	(0.009)	0.008	0.006	0.007
Weighted average number of common shares outstanding:								
Basic	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	62,869,951
Diluted	70,034,549	69,994,805	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	68,325,721

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY

The following analysis of the financial situation and the results of operations of the Company should be read in conjunction with the information presented in its audited consolidated financial statements and their related notes for the years ended October 31, 2008 and 2007.

### **Net sales**

Net Sales for the year ended October 31, 2008 were \$36,021,645 compared to \$34,528,236 for the same period in 2007, an increase of \$1,493,409 or 4.3%. This mainly reflects increases in volume in Canada of \$382,117 or 2.2%, in the United States \$170,889 or 1.2% and to other countries, \$997,744 or 39.4%. In US dollars, network sales in the United States were \$13,564,527 compared to \$12,496,985 in 2007, an increase of \$1,067,542 or 8.5%.

For the fourth quarter in 2008, net sales were \$9,254,877 compared to \$8,511,677 for the fourth quarter in 2007, an increase of \$743,200 or 8.7%. Increases were \$120,599, (2.7%) in Canada, \$389,451 (11.3%) in the United States and \$233,150 (36.2%) in other countries. In US dollars, network sales in the United States were \$3,385,374 compared to \$3,156,880, an increase of 7.2%.

### **Cost of sales**

For the year ended October 31, 2008, cost of sales as a percentage of net sales was 18.1% compared to 18.4% for year 2007. The decrease in cost of sales percentage to net sales for the year resulted from sale price adjustment of our products which were revised in May 2008 to take into account currency fluctuations between the Canadian and US dollars impacting the cost of our products in both markets.

### **Operating expenses**

#### *Sales incentives*

Sales incentives are the largest operating expenses of the Company and depend directly on the sales volume of each independent distributor. Sales incentives include both commissions related to commissionable net sales and various incentives which can be earned by independent distributors.

Sales incentives were 40.9% (40.7% for the quarter) of net sales for the twelve-month period ended October 31, 2008, compared to 41.6% (41.7% for the quarter) of net sales for the corresponding periods of 2007. This decrease in sales incentives resulted from the increase sales in other countries in relation to network marketing sales in Canada and the United States. Sales incentives in other countries are assumed by the licensees in each country. Sales incentives to the company's distributors as a percentage of commissionable sales were 46.0% in 2008 compared to 45.6% in 2007.

#### *Selling, general and administrative*

Selling, general and administrative expenses consist of marketing and selling related expenses; research and development, including costs of clinical studies; administrative expenses, professional fees, patents and trademarks, consulting fees and other office expenses; financial expenses, including credit card processing fees and the amortization of property, equipment, patents and trademarks. These expenses also include compensation, benefits for employees, incentive plan for management and other related employment expenses for all operating departments.

The selling, general and administrative expenses were \$13,163,012 for the twelve-month period ended October 31, 2008 (\$4,063,566 for the quarter), compared to \$12,360,304 (\$3,898,285 for the quarter) for the corresponding periods of 2007. An increase of \$802,708 for the year. This increase is attributable to increases in salaries and benefits for additional sales and marketing personnel of \$292,681, new executives of \$573,828, management incentive plan provision of \$207,328, as well as increases in marketing meetings and events of \$159,409, selling and marketing costs of \$518,608 of which \$415,687 occurred in the last quarter following the early adoption by the Company of CICA Section 3064 "Goodwill and Intangible Assets" with the resulting expensing of development costs of new business opportunity materials for our distributors. Travelling expenses and delivery costs were up by \$304,242.

These increases were offset with decreases in consulting and professional fees of \$317,054 as well as a reduction in retirement allowances of \$726,725 and a foreign exchange gain of \$139,115 over last year's foreign exchange loss of \$270,394 which was recorded following the strengthening of the Canadian dollar.

### **Income taxes**

For the year ended October 31, 2008, the Company recorded an income tax expense of \$660,005 which represents an effective tax rate of 41.2% compared to \$561,509 which represents an effective tax rate of 38.8% for 2007. This increase in the effective tax rate of approximately 2.4% is attributable to the reversal of income tax provisions and the deduction of costs associated with the reverse takeover transaction. These items totalled over \$150,000 and occurred in 2007.

### **Net earnings**

Net earnings were \$941,801 for the year ended October 31, 2008, compared to \$884,785 for 2007. The increase in net earnings of \$57,016, is largely attributable to increase in network sales and sales to other countries, offset by changes made in key job positions to support the strategic plan of the Company, resulting in higher administrative and marketing remuneration expenses offset by income resulting from foreign exchange gains from the strengthening of the U.S. dollar and additional interest revenue on our increased cash and cash equivalents balances during the year.

For the fourth quarter in 2008, the Company recorded a net loss of \$157,477 compared to a net loss of \$612,794 in 2007. The fourth quarter net loss in 2008 resulted mainly from the expensing of \$415,687 representing development costs for new business opportunity materials for our distributors following the early adoption by the Company of CICA Section 3064 "Goodwill and Intangible Assets". In 2007, the net loss was largely attributable to the retirement allowance for the former President and CEO in the amount of \$820,000.

### **Financial situation and liquidity**

#### ***Cash flow from operating activities***

The Company realized a cash increase from operating activities of \$3,120,076 for the year ended October 31, 2008, compared to \$3,701,180 for the corresponding periods of 2007.

The decrease of \$581,104 for the year over last year results mainly from increases in accounts receivable, inventories and current future income taxes offset by an increase in accounts payable and accrued charges.

#### ***Cash flow from investing activities***

The increase in investing activities for the year October 31, 2008 resulted in a decrease of cash flow of \$856,180, compared to a decrease of cash flow of \$467,157 for the corresponding periods of 2007. The higher decrease in net cash flow of \$389,023 for the twelve-month period ended October 31, 2008 resulted mainly from the increases in 2008 of research and development tax credits receivable and acquisition of intangible assets. Additionally, in 2007, a loan receivable of \$372,036 was repaid offset by costs of \$216,028 related to the reverse takeover transaction.

#### ***Cash flow from financing activities***

For the year ended October 31, 2008, the Company had no utilization of cash related to financing activities, compared to a decrease of \$841,300 for corresponding period of 2007. The decreases in 2007 are the result of dividends paid on common shares of \$441,300 and the reimbursement of the secured convertible debenture of \$400,000 assumed on the reverse takeover transaction.

#### ***Cash situation***

As at October 31, 2008, the Company had a cash position of \$6,138,454 compared to \$3,874,558 as at October 31, 2007. The Company believes that cash requirements in the ordinary course of business for next year can be met with its available cash, cash generated from its operating activities and the reduction of income tax payments caused by the realization of prior years income tax losses. If required, the Company has access to operating credit facilities of \$2,000,000 at its bank's prime rate plus 1/2 %. The credit facilities were not drawn upon to date.

### ***Working capital***

As at October 31, 2008, the Company shows a working capital of \$7,082,436 for a ratio of 2.56 compared to a working capital of \$4,632,233 with a ratio of 2.33 as at October 31, 2007. The increase in working capital of \$2,450,203 is mainly attributable to the investment of the majority of the funds generated from the operations into short-term certificates of deposit and treasury bills with short term maturities.

### ***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 cash and cash equivalents as well as the shareholders' equity define the capital structure of the Company.

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 issue, share repurchase, grant of stock options, payment of dividends, issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements. The Company's strategy with respect to capital management remains unchanged during the period ended October 31, 2008.

### ***Related parties***

The Company did not enter into any related party transaction during the year.

### ***Commitments***

The Company did not have any commitment, other than leases for equipment amounting to \$73,435 expiring in 2010.

## **DEVELOPMENT IN ACCOUNTING STANDARDS**

### **New accounting policies**

Financial instruments and capital disclosures

On November 1, 2007, the Company adopted the new recommendations of Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation", and Section 1535, "Capital Disclosures", issued by the Canadian Institute of Chartered Accountants ("CICA").

Section 3862 is the Canadian equivalent to International Financial Reporting Standards ("IFRS") 7, "Financial Instruments: Disclosures", and replaces the disclosure portion of Section 3861, "Financial Instruments – Disclosure and Presentation". The new standard places increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Section 3863 carries forward the presentation requirements from Section 3861, unchanged.

Section 1535 converges with the capital disclosure amendments to International Accounting Standards ("IAS") 1, "Presentation of Financial Statements". Section 1535 applies to all entities regardless of whether they have financial instruments and are subject to external capital requirements. The new section requires disclosure of information about an entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any capital requirements.

On November 1, 2007, the Company early adopted CICA Handbook Section 3031, "Inventories", to harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either the first-in, first-out (FIFO) or weighted average cost formula to measure the cost of inventories and requires the reversal of previous writedowns to net realizable value when there is a subsequent increase in the value of inventories.

In October 2008, the Company early adopted the CICA-issued Section 3064, “Goodwill and Intangible Assets”. Section 3064, which replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IAS 38, “Intangible Assets”.

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

#### **New accounting policies not yet implemented**

The CICA amended 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. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect any effect on its consolidated financial statements.

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 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, IAS 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.

#### **Transition to international financial reporting standards (IFRS)**

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles for accountable public companies will be replaced with IFRS. For our company, IFRS will be effective for interim and annual periods commencing November 1, 2011, including the preparation of comparative figures.

The Company commenced assessing the impact of the significant accounting differences between IFRS and Canadian GAAP, including analyzing the impact to business processes, systems and internal control over financial reporting.

Further updates on implementation progress and potential reporting impact from the adoption of IFRS will be provided during the implementation period.

## FINANCIAL INSTRUMENTS

### Classification of the financial instruments

Cash and cash equivalents are classified as “financial assets held for trading”. Accordingly, they are 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.

The investment in common shares of a private company is classified as “available for sale”. Such shares are initially recorded at their fair value and subsequently are carried at cost. Available-for-sale financial assets are, however, subject to assessment for impairment and unrealized losses are recorded in the consolidated statement of earnings.

Accounts payable and accrued liabilities, customer deposits and long-term liability are classified as “other financial liabilities”. Subsequent to their initial 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 and cash equivalents, accounts receivable, accounts payable and accrued liabilities and customer deposits, is comparable to their carrying values due to their relatively short terms to maturity.

The fair value of the investment in a private company was not reliably estimable as at October 31, 2008 since the investment relates to a private bio-based technology company in the development stage. The investee is committed to buy back, in May 2010, the shares owned by the Company at the higher of the fair value of the shares or US\$786,350.

The fair value of the long-term liability was determined by calculating the present value of expected future cash flows using a discount rate consistent with market rates the Company could obtain on a debt with similar terms. There is no significant difference between the fair value and the carrying value of the liability.

## RISKS

### Credit risk

Financial instruments which potentially subject the Company to credit risk include cash and cash equivalents and accounts receivable, with respect to which management believes there was no significant concentration of credit risk as at October 31, 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.

### Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and does not currently hold any financial instrument to mitigate this risk. Cash balances bear interest at floating rates, certificates of deposit and Treasury bills bear interest at a fixed rate. Management does not believe that the impact of the interest rate fluctuations on the current level of cash and cash equivalents 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 US dollars. These risks are partially offset by purchases and operating expenses incurred in US dollars. As at October 31, 2008, the balances denominated in US dollars are \$560,154 (2007 – \$3,153,224) for the cash and cash equivalents, \$244,973 (2007 – \$419,067) for the accounts receivable and \$1,279,193 (2007 – \$863,540) for the accounts payable and accrued liabilities.

## **Product Liability and Insurance**

Immunotec currently has general liability insurance, including products liability and clinical trials liability. There is no guarantee that this insurance will cover all potential claims or be of a sufficient amount of coverage to protect against losses due to liability. In addition, a product liability claim or product recall could have a material adverse effect on the business.

## **Government Regulations**

The Company is subject to direct regulation by domestic and foreign governmental agencies, particularly Health Canada and the U.S. Food and Drug Administration. The Company's marketing objectives are contingent, in part, upon compliance with regulatory requirements and obtaining regulatory approvals where necessary for the sales of its product as a dietary supplement, functional food ingredient or pharmaceutical drug.

The Company is also subject to direct regulation by domestic and foreign governmental agencies in connection with the operation of its direct selling network marketing system.

In addition, the Company may also be subject to regulations under local, provincial, state and federal laws, including requirements regarding customs, duties, cross-border issues, occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulations.

Changes in government regulations could have an adverse effect on the business and financial condition of the Company.

## **Competition**

The Company's market for its products is intensely competitive and subject to rapid technological change. Larger competitors with longer operating histories and greater financial, marketing and other resources may develop and market new products which could render our existing products less competitive.

## **Reliance on Key Suppliers**

While the operations of the Company require relatively few resources, the business is heavily dependent on its key suppliers. If the Company were, for any reason, to be unable to maintain a business relationship with its key suppliers, its business and financial condition may be materially adversely affected.

To date, the Company has not experienced any difficulty in obtaining adequate supplies from its suppliers. The Company attempts to assure the availability of many of its products by contracting in advance for its annual requirements. However, the inability of the Company's suppliers to provide the Company with sufficient quantities of supplies could have a material adverse effect on the Company's business and financial condition.

## **Technical Obsolescence & Product Development**

The functional food industry is characterized by rapidly changing technology, shifting industry standards and frequent introduction of new products. The introduction of new products embodying new technologies and the emergence of new industry standards may render the Company's products obsolete or less marketable. The process of developing the Company's products is extremely complex and requires significant continuing development efforts. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect its business and financial condition. The Company has set up a Product Development Committee, headed by an experienced scientist and comprised of regulatory and marketing employees, to manage the development of products or applications.

Research and development in the industry in which the Company operates is highly speculative and involves a high degree of risk. The marketability of any products which may be developed by the Company will be affected by numerous factors beyond the Company's control, including:

- a) proprietary rights of third parties or competing products or technologies may preclude commercialization;
- b) requisite regulatory approvals may not be obtained; and
- c) other factors may become apparent during the course of research, upscaling or manufacturing which may result in the discontinuation of research and other critical projects.

### **Technology and Intellectual Property**

The Company relies on the protection of its patents and intellectual property rights for its success. Policing unauthorized use of its patents and intellectual property is extremely difficult and expensive. There can be no assurance that the Company's patents would be held valid or enforceable by a court or that a competitor's product would be found to infringe such patents.

### **Payment of Dividends**

The future payment of dividends on the common shares will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Board of Directors of the Company may consider appropriate in the circumstances. The payment of dividends in the future is uncertain.

### **Financing Risks**

Management believes that the financial resources of the Company will be at a sufficient level to cover all of its operating and financing costs in connection with the implementation of the short-term business plans of the Company. However, there can be no assurance that growth will be achieved at such levels or that additional financial resources may not be required due to unforeseen circumstances or a change in the business plans of the Company.

### **Conflict of Interest**

Certain directors of the Company are or may become associated with other companies which may give rise to conflicts of interest. In accordance with the Canada Business Corporations Act, a director or officer who is a party to a material contract or proposed material contract or is a director or officer of or has a material interest in any entity who is a party to a material contract or a proposed material contract with the Company is required, subject to certain exceptions, to disclose that interest and generally to abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Company. All of the outside directors of the Company have either other full-time employment or other business or time restrictions placed on them and accordingly, the Company does not constitute the only business interest of such directors.

### **Federal Trade Commission ("FTC") - Proposed Business Opportunity Rule**

In the 1970s, the FTC promulgated a trade regulation rule known as the "Franchise Rule" to address deceptive and unfair practices in the sale of franchises and business opportunity ventures. On April 12, 2006, the FTC published notice of its intention to enact a Business Opportunity Rule covering business opportunities not covered by the Franchise Rule. The DSA has stated that the proposed rule, in its current form, would have negative consequences for the direct selling industry by "drastically altering the means in which our sellers and direct selling companies do business". The proposed rule would impose on direct selling companies a number of burdensome requirements such as a seven day waiting period to enroll new distributors, the furnishing of an "Earnings Claim Statement" to prospective distributors and the introduction of a US\$500 threshold to start a business. Today, without the threshold, a new distributor can establish his business with an investment of US\$ 30. The US\$500 required investment and other proposed requirements will discourage prospective distributors from starting a business. The FTC has advised the DSA that the rulemaking process may take one to several years to complete; in the meantime, the proposed rule is being vigorously contested by the affected stakeholders. Should this Business Opportunity Rule be implemented as proposed, it could have an adverse effect on the business and financial condition of the Company.

## **Key Personnel**

The future success of the Company will depend in large part upon its ability to retain its key management personnel to attract and retain additional qualified marketing, sales and technical personnel, as well as independent distributors to form part of its network marketing system. The Company may not be able to enlist, train, retain, motivate and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales and technical personnel as well as independent distributors, could make it difficult for the Company to manage its business and meet its objectives.

## **LEGAL PROCEEDINGS OF THE COMPANY**

In the normal course of business, the Company is presently involved in legal proceedings with a consulting firm. We believe this current claim is ill-founded in fact and in law and the resolution thereof will not have a material effect on our financial situation.

## **FUTURE DEVELOPMENTS**

The Company has for many years sold product internationally under exclusive distribution agreements based on Geographic territories. In fiscal 2008 distribution agreements were entered into with licensees in Malaysia, Equador and Poland. Going forward the Company has made a decision to expand internationally using the same seamless network marketing model successfully employed in North America. As a result of this decision it is the Company's intent to open in the United Kingdom, Republic of Ireland and South Korea through wholly owned subsidiaries in the coming year.

In support of this more rapid expansion plan, the Company will be expanding its manufacturing capability at its production facility in Blainville, Quebec, adding packaging capability for its flagship Immunocal product.

Immunotec benefits from a solid balance sheet, skilled and motivated employees, well-established suppliers, repeat customers and a dedicated network of distributors. Since last year, the management implemented new measures in sales and marketing initiatives and it believes that these measures will help increase sales during the present year and the following years.

Management is of the opinion that its investment in current research in such areas as cancer cachexia, aging and aging-related conditions will enable Immunotec to produce and bring to market more value-added products thereby continuing to differentiate its products from competing products. Product development is on-going, based on recommendations from Immunotec's Product Development Committee, allowing the Company to increase its product lines within the health and wellness market.

## **DESCRIPTION OF SECURITIES**

### **Capital Stock**

The following description of the common and preferred shares of the Company is a brief summary of their material attributes and characteristics.

#### **b) Authorized – in unlimited number**

Common shares: Voting, participating, with no par value and with dividend rights at the discretion of the Board of Directors.

First preferred shares and Second preferred shares: The first and second preferred shares may be issued in one or more series. 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.

**c) Issued**

As at January 31, 2009 there are 70,026,558 common shares including 32,258 common shares held by the Company for sale.

**Escrow Shares**

In accordance with the policies of the TSX Venture Exchange, a portion of the payment shares received by the shareholders of Immunotec Research Ltd. (insiders) were placed in escrow as RTO Value Escrow Shares.

As at October 31, 2008, all Escrow Shares were released in accordance with the RTO Escrow Agreement.

**Stock option plan**

As at October 31, 2008, the Company had 2,712,500 options outstanding. Each option entitles the holder to acquire one common share of the Company at the following exercise price; 1,682,500 options at \$1.13, 700,000 at \$0.66, 30,000 at \$0.80 and 300,000 at \$0.56.

During the year ended October 31, 2008, the Company granted 1,137,500 stock options to its employees and a distributor at prices ranging from \$0.56 to \$1.13. Included in these grants, were 700,000 options granted to its new President and Chief Executive Officer as well as 300,000 to its new Executive Vice-President and Chief Operating Officer under employment contracts with the Company effective November 2007 and July 2008, respectively.

Each option 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 for directors, officers and employees commencing one year following the date of grant, and vest over a one year period for the distributor. The options expire five years after the grant date.

**ONGOING INFORMATION AND CONTROLS RELATED  
TO THE COMMUNICATION OF INFORMATION**

**Disclosure controls and procedures**

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, the related consolidated financial statements and its interim filings are properly recorded, processed, summarized and reported to its Audit Committee and the Board of Directors.

**Internal controls over financial reporting**

The Company, being an Issuer on the TSX Venture Exchange, is no longer required to certify that we have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting.

We have instead filed a Certificate of Annual Filings – Venture Issuer Basic Certificate which certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the annual filings.

**Additional Information**

The Company files its consolidated financial statements, its management and discussion analysis report, its press releases and such other required documents on the SEDAR database at [www.sedar.com](http://www.sedar.com). The common shares of the Company are listed on the TSX Venture Exchange under the ticker symbol IMM.

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