

Immunotec Inc.

Consolidated Financial Statements
October 31, 2008 and 2007

February 12, 2009

Auditors' Report

To the Shareholders of Immunotec Inc.

We have audited the consolidated balance sheets of **Immunotec Inc.** as at October 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive income, 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

¹ Chartered accountant auditor permit No. 10717

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

Immunotec Inc.
Consolidated Balance Sheets
As at October 31, 2008 and 2007

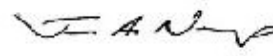
	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	6,138,454	3,874,558
Accounts receivable (note 4)	812,914	505,366
Income taxes receivable	118,692	13,448
Inventories (note 5)	2,979,230	2,683,249
Prepaid expenses	548,333	495,412
Future income taxes (note 18(b))	1,037,000	536,000
	11,634,623	8,108,033
Property, plant and equipment (note 6)	6,210,788	6,626,960
Intangible assets (note 7)	2,527,596	2,338,614
Other assets (note 8)	1,238,885	1,127,435
Goodwill	499,541	499,541
Future income taxes (note 18(b))	551,967	1,654,023
	22,663,400	20,354,606
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,243,914	3,005,722
Customer deposits	261,735	344,299
Income taxes payable	46,538	125,779
	4,552,187	3,475,800
Long-term liability (note 10)	-	393,600
	4,552,187	3,869,400
Shareholders' Equity		
Share capital (note 11)	3,465,548	3,465,548
Other equity – Stock options (note 12)	1,414,885	736,416
Contributed surplus (note 13)	11,332,143	11,326,406
Retained earnings	1,898,637	956,836
	18,111,213	16,485,206
	22,663,400	20,354,606

Approved by the Board of Directors



Richard Patte

Director



James A. Northrop

Director

Immunotec Inc.

Consolidated Statements of Changes in Shareholders' Equity For the years ended October 31, 2008 and 2007

	Number of common shares	Share capital \$	Other equity – Stock options \$	Contributed surplus \$	Retained earnings \$	Total \$
Balance – October 31, 2006	56,885,498	1,700	-	1,706	72,051	75,457
Net earnings for the year	-	-	-	-	884,785	884,785
Reverse takeover (note 2)	3,102,443	3,500,000	-	-	-	3,500,000
Class A shares redeemable at the option of the holder (note 13)	10,038,617	300	-	11,324,700	-	11,325,000
Shares held by the Company for sale	(32,258)	(36,452)	-	-	-	(36,452)
Stock-based compensation (note 12)	-	-	736,416	-	-	736,416
Balance – October 31, 2007	<u>69,994,300</u>	<u>3,465,548</u>	<u>736,416</u>	<u>11,326,406</u>	<u>956,836</u>	<u>16,485,206</u>
Net earnings for the year	-	-	-	-	941,801	941,801
Stock-based compensation (note 12)	-	-	678,469	5,737	-	684,206
Balance – October 31, 2008	<u>69,994,300</u>	<u>3,465,548</u>	<u>1,414,885</u>	<u>11,332,143</u>	<u>1,898,637</u>	<u>18,111,213</u>

Immunotec Inc.

Consolidated Statements of Earnings and Comprehensive Income For the years ended October 31, 2008 and 2007

	2008 \$	2007 \$
Net sales	36,021,645	34,528,236
Cost of sales	6,522,675	6,364,645
	<hr/> 29,498,970	<hr/> 28,163,591
Operating expenses		
Sales incentives	14,734,152	14,356,993
Selling, general and administrative (note 15)	13,163,012	12,360,304
	<hr/> 27,897,164	<hr/> 26,717,297
Earnings before income taxes	<hr/> 1,601,806	<hr/> 1,446,294
Income tax provision (note 18(a))		
Current	58,949	232,845
Future	601,056	328,664
	<hr/> 660,005	<hr/> 561,509
Net earnings and comprehensive income for the year	<hr/> 941,801	<hr/> 884,785
Net earnings per share (note 16)		
Basic	0.013	0.013
Diluted	0.013	0.013
Weighted average number of common shares outstanding during the year (note 16)		
Basic	69,994,300	68,198,574
Diluted	70,034,549	69,573,727

Immunotec Inc.

Consolidated Statements of Cash Flows For the years ended October 31, 2008 and 2007

	2008 \$	2007 \$
Cash flows from		
Operating activities		
Net earnings for the year	941,801	884,785
Items not affecting cash		
Amortization of property, plant and equipment	547,430	515,290
Amortization of intangible assets	496,623	455,669
Loss on disposal of property, plant and equipment	-	1,016
Future income taxes	601,056	328,664
Stock-based compensation	684,206	736,416
	<hr/> 3,271,116	<hr/> 2,921,840
Changes in non-cash working capital balances related to operating activities (note 19)	(151,040)	779,340
	<hr/> 3,120,076	<hr/> 3,701,180
Investing activities		
Amounts received from shareholders	-	372,036
Decrease in loan receivable	-	47,274
Additions to property, plant and equipment (note 19)	(142,771)	(224,408)
Additions to intangible assets (note 19)	(601,959)	(446,031)
Research and development tax credits	(111,450)	-
Costs related to the reverse takeover transaction	-	(216,028)
	<hr/> (856,180)	<hr/> (467,157)
Financing activities		
Dividends paid	-	(441,300)
Reimbursement of secured convertible debenture	-	(400,000)
	<hr/> -	<hr/> (841,300)
Net increase in cash and cash equivalents during the year	2,263,896	2,392,723
Cash and cash equivalents – Beginning of year	3,874,558	1,481,835
Cash and cash equivalents – End of year	<hr/> 6,138,454	<hr/> 3,874,558
Supplemental information		
Income taxes paid during the year	236,575	368,956

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

1 Nature of activities

Immunotec Inc. (the “Company”) 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.

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

2 Business combination

Reverse takeover

In conjunction with the reverse takeover of Magistral Biotech Inc. (“Magistral”), on December 21, 2006, Magistral changed its legal name to Immunotec Inc. On January 1, 2007, Immunotec Research Ltd. (“Immunotec Research”) amalgamated with Immunotec and continues its operation under the name Immunotec Inc.

As a result of this transaction, the shareholders of Immunotec Research received enough common shares of the Company to effect a reverse takeover of the Company. The business combination of the Company and Immunotec Research has been accounted for using the reverse takeover method of purchase accounting. Immunotec Research was deemed to be the acquirer and to have purchased the assets and liabilities of the Company because the shareholders of Immunotec Research, as a group, became owners of more than 95% of the voting shares of the Company on a fully diluted basis following the business combination. Accordingly, these consolidated financial statements reflect the continuation of Immunotec Research and include the assets, liabilities and results of operations of the Company since December 20, 2006.

On January 23, 2007, the TSX Venture Exchange approved the transaction and authorized the resumption of trading of the Company’s shares.

The assets and liabilities of the Company have been accounted for at their estimated fair values using the purchase method of accounting.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

3 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 subsidiaries. For accounting purposes, the Company is considered to be a continuation of Immunotec Research, except with regard to the authorized and issued share capital, which is that of the legal parent company.

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 assessment for impairment of investment, 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. Sales are recorded when products are shipped and collection is reasonably assured. The Company generally requires payment by credit card from its distributors and customers prior to shipment of products. Sales to licensees generally require a 50% deposit when an order is placed and the balance paid prior to shipping the order.

Cash and cash equivalents

Cash consists of cash and cash balances with banks. The cash equivalents consist of short-term certificates of deposit and Treasury bills, highly liquid investments that are easily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition. They are classified held for trading and recorded at fair value.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Investment

The investment in a private company is classified as an available-for-sale investment and recorded at cost. Impairment is recognized when an other-than-temporary decline in value occurs.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

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:

Building	25 years
Computer equipment	4 years
Office equipment	5 years

Research and development costs

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, 2008 and 2007, the Company had not deferred any development costs.

Research and development tax credits

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 with respect to 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 Consolidated Financial Statements October 31, 2008 and 2007

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.

Translation of foreign currencies

For foreign currency transactions and those of the integrated foreign subsidiary, 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 is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is 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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

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

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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

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.

4 Accounts receivable

	2008	2007
	\$	\$
Trade, less provision for doubtful accounts of \$233,916 (2007 – \$81,055)	327,906	448,666
Research and development tax credits	194,979	56,700
Other receivables	290,029	-
	<hr/>	<hr/>
	812,914	505,366
	<hr/>	<hr/>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

5 Inventories

	2008 \$	2007 \$
Raw materials	1,433,121	1,100,112
Finished goods	1,546,109	1,583,137
	<u>2,979,230</u>	<u>2,683,249</u>

6 Property, plant and equipment

	<u>2008</u>		
	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
	<u>9,227,093</u>	<u>3,016,305</u>	<u>6,210,788</u>
	<u>2007</u>		
	Cost \$	Accumulated amortization \$	Net \$
Land	944,633	-	944,633
Buildings	4,953,076	368,634	4,584,442
Computer equipment	1,656,523	1,384,068	272,455
Office equipment	1,541,603	716,173	825,430
	<u>9,095,835</u>	<u>2,468,875</u>	<u>6,626,960</u>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

7 Intangible assets

	2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Patents and trademarks	2,849,674	1,602,052	1,247,622
Licenses	481,500	52,850	428,650
Softwares	2,059,665	1,434,796	624,869
Websites	278,411	51,956	226,455
	5,669,250	3,141,654	2,527,596
			2007
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Patents and trademarks	2,722,786	1,422,159	1,300,627
Licenses	460,000	33,733	426,267
Softwares	1,737,086	1,185,409	551,677
Websites	68,621	8,578	60,043
	4,988,493	2,649,879	2,338,614

8 Other assets

	2008	2007
	\$	\$
Investment	736,000	736,000
Research and development tax credits receivable	502,885	391,435
	1,238,885	1,127,435

The investment includes common shares of a private company, Diversified Natural Product.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

9 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.

10 Long-term liability

Based on his employment agreement with the Company and following the announcement of his retirement, the former president and chief executive officer was granted an allowance amounting to \$855,600, non-interest bearing, payable in 52 biweekly instalments, ending in September 2009. The balance as at October 31, 2008 amounts to \$377,375 (2007 – \$820,000) with a current portion payable of \$377,375 (2007 – \$426,400) which is included in accounts payable and accrued liabilities.

11 Share capital

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

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.

Immunotec Inc.

Notes to Consolidated Financial Statements
October 31, 2008 and 2007

12 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 may not exceed 5% of the issued and outstanding common shares.

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Issued and outstanding – Beginning of year	1,622,500	1.13	-	-
Granted	1,137,500	0.68	1,630,000	1.13
Forfeited	(47,500)	1.11	(7,500)	1.13
Issued and outstanding – End of year	2,712,500	0.94	1,622,500	1.13

Issue date	Options issued and in circulation			Options exercisable		
	Number	Exercise price \$	Weighted average remaining life (years)	Number	Exercise price \$	Weighted average remaining life (years)
December 2006	1,582,500	1.13	3.14	527,500	1.13	3.14
November 2007	700,000	0.66	4.01	-	-	-
February 2008	30,000	0.80	4.29	-	-	-
July 2008	300,000	0.56	4.68	-	-	-
September 2008	100,000	1.13	4.84	-	-	-
	2,712,500			527,500		

During the year ended October 31, 2008, the Company granted 1,137,500 stock options to its employees and a consultant 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 options granted to its new vice-president and chief operating officer under employment contracts with the Company effective respectively November 2007 and July 2008.

Immunotec Inc.

Notes to Consolidated Financial Statements

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Each option entitles the holder to acquire one common share of the Corporation at the exercise price specified when granted. Options granted vest over a three-year period for directors, officers and employees, at a rate of one third per year commencing one year following the date of grant, and vest gradually over a one-year period for the consultant. 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	3.78%
Volatility rate	97.04%
Expected dividend yield	Nil
Expected life	5 years

The weighted-average fair value of the 1,137,500 options has been estimated at \$0.4727. In accordance with Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", of the CICA Handbook, the Company has recorded the expense for these options using the straight-line method from the date of grant to the date they will vest.

For the year ended October 31, 2008, the Company has recorded the stock-based compensation expense of \$684,206 (2007 – \$736,416) to Selling, general and administrative expenses and credited the amount to Other equity – Stock options.

13 Contributed surplus

On October 12, 2006, the Caisse de dépôt et placement du Québec ("CDPQ") purchased 150,000 Class A shares of Immunotec Research, representing a 15% interest, from The Beer Family Trust (7.5%) and C.H. Roberts Holdings Ltd. (7.5%).

Under a unanimous agreement among shareholders of Immunotec Research, after a period of five years the CDPQ could exercise an irrevocable option to force the repurchase of a portion or the totality of the shares it owned at the greater of the book value and the fair market value of the shares.

This agreement was terminated as the reverse takeover of Magistral was completed on December 20, 2006.

During the year, from the 47,500 forfeited options presented in note 12, a total of 6,667 options recorded at a total fair market value of \$5,737 were vested. They have been debited to Other equity – Stock options and credited to Contributed surplus.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

14 Business and geographic segment

The Company's operations involve only one reportable business segment; all property, plant and equipment, intangible assets and goodwill are maintained in Canada.

Sales by final destination are as follows:

	2008 \$	2007 \$
Canada	18,093,687	17,711,570
United States	14,399,520	14,285,972
Other countries	3,528,438	2,530,694
	<hr/> 36,021,645	<hr/> 34,528,236

15 Statements of earnings

The following items are included in selling, general and administrative expenses:

	2008 \$	2007 \$
Research and development*	450,826	499,559
Amortization of property, plant and equipment	547,430	515,290
Amortization of intangible assets	496,623	455,669
Interest income	(126,751)	(79,628)
Foreign exchange (gain) loss	(139,115)	270,394

* Research and development expenses comprise:

Salaries	492,935	486,023
Expenses	215,484	156,124
	<hr/> 708,419	<hr/> 642,147
Less: Research and development tax credits	257,593	142,588
	<hr/> 450,826	<hr/> 499,559

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

16 Net earnings per share

	2008 \$	2007 \$
Net earnings for the year	941,801	884,785
Weighted average number of outstanding basic common shares	69,994,300	68,198,574
Dilutive effect of redeemable Class A shares	-	1,375,153
Dilutive effect of stock options	40,249	-
Weighted average number of outstanding diluted common shares	70,034,549	69,573,727
Basic earnings per share	0.013	0.013
Diluted earnings per share	0.013	0.013

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. Some options were dilutive during the first and the third quarter. As at October 31, 2008, all stock options were anti-dilutive.

17 Related party transactions

During the year, the Company entered into the following transactions with directors:

	2008 \$	2007 \$
Administrative fees	-	98,400

These transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

18 Income taxes

- a) The income tax expense differs from the expected expense computed at the Canadian combined federal and provincial statutory income tax rate of 31.09% (2007 – 32.02%).

	2008	2007
	\$	\$
Expected expense computed at the Canadian combined federal and provincial statutory income tax rate	498,001	463,103
Adjustments to reflect the following:		
Prior year's tax adjustments and assessments	(68,901)	(149,691)
Non-taxable research and development tax credits	(20,092)	14,327
Non-deductible items	24,827	21,196
Foreign tax rate difference	(832)	17,018
Stock-based compensation	212,720	235,800
Financing costs	-	(76,938)
Foreign exchange	21,812	(15,063)
Other	(7,530)	51,757
	<hr/>	<hr/>
	660,005	561,509
	<hr/>	<hr/>

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Notes to Consolidated Financial Statements October 31, 2008 and 2007

b) The future income taxes balances comprise the following:

	2008 \$	2007 \$
Future income tax assets		
Financing costs	58,610	101,908
Retirement benefits	62,377	196,923
Tax losses carried forward	1,319,227	2,280,941
Accounts receivables	42,118	-
	<hr/>	<hr/>
Total future income tax assets	1,482,332	2,579,772
Future income tax liabilities		
Property, plant and equipment	(255,479)	161,167
Intangible assets	(9,583)	83,095
Investment tax credit	158,427	145,487
	<hr/>	<hr/>
Total future income tax liabilities	(106,635)	389,749
Net future income tax assets	<hr/>	<hr/>
	1,588,967	2,190,023
Classified as:		
Current assets	1,037,000	536,000
Long-term assets	551,967	1,654,023
	<hr/>	<hr/>
	1,588,967	2,190,023
	<hr/>	<hr/>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

19 Changes in non-cash working capital balances

The cash generated from (used for) non-cash working capital is made up of changes related to operating activities in the following accounts:

	2008	2007
	\$	\$
Decrease (increase) in		
Accounts receivable	(307,548)	15,012
Income taxes receivable	(105,244)	(13,448)
Inventories	(295,981)	588,597
Prepaid expenses	(52,921)	144,098
Increase (decrease) in		
Accounts payable and accrued liabilities	772,459	(28,559)
Customer deposits	(82,564)	238,196
Income taxes payable	(79,241)	(164,556)
	<u>(151,040)</u>	<u>779,340</u>

Items not affecting cash and cash equivalents related to investing activities:

Included in accounts payable and accrued liabilities:		
Property, plant and equipment	584	12,097
Intangible assets	123,958	40,312

20 Contingency

In the normal course of business, the Company 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 favourable or unfavourable effect on its financial situation.

21 Commitments

The Company has leases for equipment amounting to \$73,435 expiring in 2010. Minimum future payments under these operating leases are as follows:

	\$
2009	44,323
2010	29,112

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

22 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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

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.

As at October 31, 2008, a variation of 10% in the exchange rate, which the Company considers reasonable compared to the actual year-end exchange rate, would have resulted in the following impacts on each category of financial instruments held in US dollars at the balance sheet date and on net earnings:

	Depreciation	Appreciation
	\$	\$
Cash and cash equivalents	67,471	(67,471)
Accounts receivable	29,507	(29,507)
Accounts payable and accrued liabilities	(154,079)	154,079
	<u>(57,101)</u>	<u>57,101</u>
Income taxes	17,753	(17,753)
	<u>17,753</u>	<u>(17,753)</u>
Increase (decrease) in net earnings	<u>(39,348)</u>	<u>39,348</u>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2008 and 2007

23 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 its capital structure as cash and cash equivalents and shareholders' equity. The Company's capital at October 31, 2008 and October 31, 2007 is as follows:

	2008	2007
	\$	\$
Cash and cash equivalents	6,138,454	3,874,558
Shareholders' equity	18,111,213	16,485,206
	<u>24,249,667</u>	<u>20,359,764</u>

The Company's strategy consists of maintaining a flexible capital structure in order to respond to the economic conditions and adjust 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, the payment of dividends, the issuance of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company periodically monitors its capital structure.

The Company is not subject to externally imposed capital requirements. The Company's strategy with respect to capital management remained unchanged during the years ended October 31, 2008 and 2007.

24 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

