

Immunotec Inc.

Consolidated Financial Statements
October 31, 2007 and 2006

February 7, 2008

Auditors' Report

To the Shareholders of Immunotec Inc.

We have audited the consolidated balance sheets of **Immunotec Inc.** as at October 31, 2007 and 2006 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, 2007 and 2006 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

Chartered Accountants

Immunotec Inc.
Consolidated Balance Sheets
As at October 31, 2007 and 2006

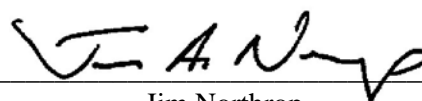
	2007 \$	2006 \$
Assets		
Current assets		
Cash	3,874,558	1,481,835
Accounts receivable (note 4)	505,366	887,847
Income taxes receivable	13,448	-
Inventories (note 5)	2,683,249	3,180,292
Prepaid expenses	495,412	547,861
Future income taxes (note 18(b))	536,000	16,000
	8,108,033	6,113,835
Investments (note 6)	736,000	247,274
Property, plant and equipment (note 7)	7,238,680	6,024,461
Patents, trademarks and licenses (note 8)	1,726,894	1,714,406
Deferred transaction costs	-	488,499
Goodwill	499,541	499,541
Research and development tax credits receivable	391,435	-
Future income taxes (note 18(b))	1,654,023	107,554
	20,354,606	15,195,570
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,005,722	2,710,785
Dividends payable	-	441,300
Customer deposits	344,299	106,103
Income taxes payable	125,779	290,335
	3,475,800	3,548,523
Long-term liability (note 10)	393,600	-
Future income taxes (note 18(b))	-	246,590
Class A shares redeemable at the option of the holder (note 13)	-	11,325,000
	3,869,400	15,120,113
Shareholders' Equity		
Share capital (note 11)	3,465,548	1,700
Other equity – Stock options (note 12)	736,416	-
Contributed surplus (note 13)	11,326,406	1,706
Retained earnings	956,836	72,051
	16,485,206	75,457
	20,354,606	15,195,570

Approved by the Board of Directors



Richard Patte

Director



Jim Northrop

Director

Immunotec Inc.

Consolidated Statements of Changes in Shareholders' Equity For the years ended October 31, 2007 and 2006

	Number of common shares	Share capital \$	Other equity – Stock options \$	Contributed surplus \$	Retained earnings \$	Total \$
Balance – November 1, 2005	66,924,115 *	2,000	-	-	9,982,504	9,984,504
Net earnings for the year	-	-	-	-	3,448,017	3,448,017
Dividends declared	-	-	-	-	(2,033,770)	(2,033,770)
Excess of the redeemable value of the portion of Class A shares redeemable at the option of the holder over the paid-up capital, which had been recorded as a liability until December 20, 2006 and reversed to contributed surplus on the completion of the reverse takeover (note 13)	(10,038,617)	(300)	-	-	(11,324,700)	(11,325,000)
Amalgamation of Immunotec Research with its parent companies on October 11, 2006 (note 17(b))	-	-	-	1,706	-	1,706
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	69,994,300	3,465,548	736,416	11,326,406	956,836	16,485,206

* Represent shares issued to the former shareholders of Immunotec Research upon the reverse takeover (note 2).

Immunotec Inc.

Consolidated Statements of Earnings and Comprehensive Income For the years ended October 31, 2007 and 2006

	2007 \$	2006 \$
Net sales	34,528,236	36,907,812
Cost of sales	6,138,492	6,221,046
	<hr/> 28,389,744	<hr/> 30,686,766
Operating expenses		
Sales incentives	14,356,993	15,272,762
Selling, general and administrative (note 15)	12,586,457	10,315,734
	<hr/> 26,943,450	<hr/> 25,588,496
Earnings before income taxes	<hr/> 1,446,294	<hr/> 5,098,270
Income tax provision (recovery) (note 18(a))		
Current	232,845	1,661,217
Future	328,664	(10,964)
	<hr/> 561,509	<hr/> 1,650,253
Net earnings and comprehensive income for the year	<hr/> 884,785	<hr/> 3,448,017
Net earnings per share (note 16)		
Basic and diluted	<hr/> 0.013	<hr/> 0.052
Weighted average number of common shares outstanding during the year (note 16)		
Basic	68,198,574	66,374,054
Diluted	69,573,727	66,924,115

Immunotec Inc.

Consolidated Statements of Cash Flows For the years ended October 31, 2007 and 2006

	2007 \$	2006 \$
Cash flows from		
Operating activities		
Net earnings for the year	884,785	3,448,017
Items not affecting cash		
Amortization of property, plant and equipment	774,176	648,521
Amortization of patents, trademarks and licenses	196,783	176,376
Loss on disposal of property, plant and equipment	1,016	-
Future income taxes	328,664	(10,964)
Stock-based compensation	736,416	-
	<hr/> 2,921,840	<hr/> 4,261,950
Changes in non-cash working capital balances related to operations (note 19)	779,340	(987,718)
	<hr/> 3,701,180	<hr/> 3,274,232
Investing activities		
Amounts received from shareholders	372,036	-
Decrease in loan receivable	47,274	325,892
Deferred transaction costs	-	(488,499)
Additions to property, plant and equipment (note 19)	(569,168)	(527,227)
Proceeds on disposal of property, plant and equipment	-	11,329
Additions to patents, trademarks and licenses	(101,271)	(651,843)
Costs related to transaction, net of cash acquired (note 2)	(216,028)	-
	<hr/> (467,157)	<hr/> (1,330,348)
Financing activities		
Dividends paid	(441,300)	(1,592,470)
Proceeds on amalgamation (note 17(b))	-	5,214
Reimbursement of secured convertible debenture (note 2)	(400,000)	-
	<hr/> (841,300)	<hr/> (1,587,256)
Net increase in cash during the year	2,392,723	356,628
Cash – Beginning of year	1,481,835	1,125,207
Cash – End of year	<hr/> 3,874,558	<hr/> 1,481,835
Supplemental information		
Income taxes paid during the year	368,956	1,447,866

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

1 Nature of activities

In conjunction with the reverse takeover of Magistral Biotech Inc. (“Magistral”) described in note 2, 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.

Immunotec Inc. (the “Company”) is engaged primarily in the development and marketing of natural health products, dietary supplements, food, vitamins and personal care products which are manufactured on its behalf. 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 initials “IMM”).

2 Business combination

Reverse takeover

On November 21, 2006, following a letter of intent signed on September 19, 2005 between the Company and Immunotec Research, the Company signed an agreement regarding the acquisition of all the issued and outstanding shares of Immunotec Research.

On December 20, 2006, the shareholders of the Company approved the transaction and the Company acquired Immunotec Research. Immunotec Research’s shareholders received 2,676,964,607 shares of the Company (66,924,115 shares after taking into account a 40:1 share consolidation) in exchange for the 1,000,000 issued and outstanding Class A shares of Immunotec Research.

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 respective estimated fair values using the purchase method of accounting.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

The aggregate purchase price is detailed as follows:

	\$
Value attributed to the 3,102,443 shares of the Company	3,500,000
Immunotec Research's existing portfolio investment in the Company (at cost, less value attributed to shares of the Company)	163,548
Transaction costs incurred by Immunotec Research	
Before October 31, 2006	488,499
After October 31, 2006	242,704
	<u>4,394,751</u>

During the three-month period ended July 31, 2007, the Company finalized the purchase price allocation based on the estimated fair value of the assets acquired and liabilities assumed of the Company under the reverse takeover. The new purchase price allocation takes into account the increase in fair value of the research and development tax credits receivable by \$164,404, the increase in the future income tax assets by \$377,596 and the decrease in fair value of the patents, trademarks and licenses by \$542,000. The new purchase price allocation is detailed as follows:

	\$
Assets	
Cash and cash equivalents	26,676
Accounts receivable	4,567
Inventories	91,554
Other current assets	91,649
Investment	736,000
Property, plant and equipment	1,400,000
Patents, trademarks and licenses	108,000
Research and development tax credits receivable	391,435
Future income taxes	2,641,723
	<u>5,491,604</u>
Liabilities	
Accounts payable and accrued liabilities	696,853
Secured convertible debenture	400,000
	<u>1,096,853</u>
Net assets acquired	<u>4,394,751</u>

Immunotec Inc.

Notes to Consolidated Financial Statements
October 31, 2007 and 2006

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. The results of operations of the Company are included in the consolidated financial statements from December 20, 2006, the date of the business combination (note 2). 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. The comparative consolidated figures presented in these consolidated financial statements are of Immunotec Research.

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 reporting period. Actual results could differ from those estimates.

Revenue recognition

The Company’s revenues are derived from product sales. Such revenues are recognized when there is evidence that an agreement exists, goods are delivered to customers in accordance with delivery terms, significant risks and rewards relating to ownership are transferred, the selling price is fixed and collection is reasonably assured.

Inventories

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Investments

Investments are recorded at cost except when there is a decline in value which is other than temporary, in which case they are reduced to their estimated net realizable 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:

Building	25 years
Computer equipment	4 years
Office equipment	5 years

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

Patents, trademarks and licenses

Patents, trademarks and licenses are recorded at cost less related accumulated amortization. Amortization is calculated on a straight-line basis over their useful lives, which are estimated at between 10 to 19 years.

Deferred transaction costs

Deferred transaction costs consisted of expenses incurred for the reverse takeover (see note 2). These expenses were included in the cost of the acquisition upon closing said transaction.

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, 2007 and 2006, 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.

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 must be tested for impairment on an annual basis 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.

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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

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 asset and 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.

All considerations paid for stock options and the amount previously included for these stock options are credited to share capital when they are exercised.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

New accounting policies

Financial instruments

On November 1, 2006, the Company adopted the new recommendations of Section 3855, “Financial Instruments – Recognition and Measurement”, Section 3865, “Hedges”, and Section 1530, “Comprehensive Income”, issued by the Canadian Institute of Chartered Accountants (“CICA”). These new sections contain standards for recognition and measurement for financial instruments, establish standards for hedge accounting and introduce a new measurement of results – comprehensive income – which is the change in equity or net assets of an enterprise during the period from transactions from non-owner sources.

The adoption of these standards requires classifying all financial assets, liabilities and derivatives of the Company for which clearly defined rules determine the standards to be applied. In accordance with the standards in these new sections, all derivative financial instruments, including certain derivatives embedded in contracts, will be recorded in the balance sheet at their fair value. Depending on the classification of the financial instruments, specific standards are applied. The Company has implemented the following classifications:

- Cash and cash equivalents are classified as “financial assets held for trading”. They are presented at their fair value, and the gains/losses arising on the revaluation at each period-end are included in consolidated earnings.
- Accounts and loans receivable are classified as “loans and receivables”. After their initial measurement at fair value, they are measured at amortized cost using the effective interest rate method. For the Company, the amortized cost generally corresponds to cost due to short-term maturity.
- Investments in common shares of a private company are classified as “available for sale”. They are initially presented at their fair value. Subsequent measurements are at cost. Available-for-sale financial assets are, however, subject to assessment for impairment whereby unrealized losses are recorded in the consolidated statement of earnings.
- Bank loan, accounts payable and accrued liabilities and long-term liability are classified as “other financial liabilities”. They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the Company, that value corresponds to cost either as a result of their short-term maturity or the floating-rate nature of some loans.

With respect to Section 1530 and Section 3251, “Equity”, a company is required to disclose comprehensive income and its components as well as net income in its financial statements, and disclose separately changes in equity during the period as well as components of equity at the end of the period, including comprehensive income.

The Company currently does not have any elements of other comprehensive income.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

Transition

With respect to embedded derivatives, the Company has elected to recognize only those derivatives embedded in contracts issued, acquired or substantively modified on or after November 1, 2002, as permitted by the transitional provisions set out in Section 3855.

The recognition, derecognition and measurement methods used to prepare the consolidated financial statements of periods prior to the effective date of the new standards were unchanged and therefore, there were no transition adjustments to record on adoption.

Accounting changes

On November 1, 2006, the Company early adopted CICA Handbook Section 1506, "Accounting Changes". This section establishes criteria for changes in accounting policies, accounting treatment and disclosures regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this section had no further effects on the financial statements for the year ended October 31, 2007.

New accounting policies not yet implemented

Financial instruments and capital disclosures

In December 2006, the CICA issued three new sections which provide a complete set of disclosure and presentation requirements for financial instruments: Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation", and Section 1535, "Capital Disclosures".

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. It is also intended to remove any duplicate disclosures and simplify the disclosures about concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861.

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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

Sections 1535, 3862 and 3863 apply to fiscal years beginning on or after October 1, 2007. The Company will adopt these new standards on November 1, 2007, and is assessing the effects these new standards will have on its consolidated financial statements.

Inventories

In June 2007, the CICA issued 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 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. The new standard applies to fiscal years beginning on or after January 1, 2008. The Company will adopt this new standard on November 1, 2008, and is assessing the effects this new standard will have on its consolidated financial statements.

4 Accounts receivable

	2007	2006
	\$	\$
Trade	448,666	442,889
Research and development tax credits	56,700	72,922
Shareholders	-	372,036
	<hr/>	<hr/>
	505,366	887,847
	<hr/>	<hr/>

5 Inventories

	2007	2006
	\$	\$
Raw materials	1,100,112	894,197
Finished goods	1,583,137	2,286,095
	<hr/>	<hr/>
	2,683,249	3,180,292
	<hr/>	<hr/>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

6 Investments

	2007 \$	2006 \$
Portfolio equity investments		
Common shares of a private company, Diversified Natural Products, at cost (note 3)	736,000	-
Common shares of a public corporation, Magistral Biotech Inc., at cost (notes 2 and 3)	-	200,000
Loan receivable, bearing interest at 3.66%, reimbursable in monthly instalments of \$1,600 including principal and interest	-	47,274
	<u>736,000</u>	<u>247,274</u>

7 Property, plant and equipment

	<u>2007</u>		
	Cost \$	Accumulated amortization \$	Net \$
Land	944,633	-	944,633
Buildings	4,953,076	368,634	4,584,442
Computer equipment	3,462,230	2,578,055	884,175
Office equipment	1,541,603	716,173	825,430
	<u>10,901,542</u>	<u>3,662,862</u>	<u>7,238,680</u>
	<u>2006</u>		
	Cost \$	Accumulated amortization \$	Net \$
Land	924,633	-	924,633
Buildings	4,180,782	176,319	4,004,463
Computer equipment	2,946,797	2,203,143	743,654
Office equipment	860,936	509,225	351,711
	<u>8,913,148</u>	<u>2,888,687</u>	<u>6,024,461</u>

Immunotec Inc.

Notes to Consolidated Financial Statements
October 31, 2007 and 2006

8 Patents, trademarks and licenses

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents, trademarks and licenses	3,182,786	1,455,892	1,726,894

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents, trademarks and licenses	2,973,516	1,259,110	1,714,406

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 CEO was granted an allowance amounting to \$855,600, non-interest bearing, payable in 52 equal instalments, ending in September 2009. The balance as at October 31, 2007 amounts to \$820,000 with a current portion payable of \$426,400 which is included in accounts payable and accrued liabilities.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

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.

12 Other equity – Stock options

Pursuant to the reverse takeover approval at the special meeting of shareholders held on December 20, 2006, the Company amended the stock option plan (the “Plan”) adopted by the prior issuer in December 2002 for 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% (previously 10%) of the issued and outstanding common shares. Under the terms of the reverse takeover, all outstanding options previously issued were cancelled. In accordance with the presentation standards of the resulting issuer arising from the reverse takeover, the cancelled options of the previous issuer are not part of the following table.

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Issued and outstanding – Beginning of period	-	-	-	-
Granted	1,630,000	1.13	-	-
Forfeited	(7,500)	1.13	-	-
Issued and outstanding – End of period	<u>1,622,500</u>	1.13	<u>-</u>	-

Immunotec Inc.

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Exercise price \$	Options issued		Options exercisable	
	Number	Weighted average remaining life (years)	Number	Weighted average remaining life (years)
1.13	1,622,500	4.14	-	-

On December 20, 2006, the Company granted 1,630,000 options to its directors, employees and consultants, each option entitling the holder to acquire one common share of the Company at a price of \$1.13. The options are exercisable at a rate of one third per year, starting December 20, 2007, and will expire December 20, 2011.

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

Risk-free interest rate	3.92%
Volatility rate	100%
Expected dividend yield	nil
Expected life	5 years

The weighted average fair value of these options has been estimated at \$0.8606 per option. Stock-based compensation expense of \$736,416 for the year ended October 31, 2007 is recorded to selling, general and administrative expenses and credited 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 to terminate at the occurrence of one of the following events:

- Mutual consent is given by all shareholders.
- Only one shareholder remains.
- Immunotec Research becomes a public corporation.
- The reverse takeover of Magistral by Immunotec Research is completed.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

In accordance with CICA EIC-149, "Accounting for Retractable or Mandatorily Redeemable Shares", the shares owned by the CDPQ had been classified as debt in the audited financial statements of Immunotec Research as at October 31, 2006 due to the CDPQ's right to force its share redemptions under certain conditions.

As the reverse takeover of Magistral was completed on December 20, 2006 (see note 2), the Class A shares redeemable at the option of the holder have therefore ceased to be redeemable and have been reclassified in shareholders' equity as contributed surplus, net of the amount initially assigned to share capital. The 150,000 Class A shares of Immunotec Research were exchanged for 10,038,617 common shares.

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:

	2007	2006
	\$	\$
Canada	17,711,570	18,610,059
United States	14,285,972	15,684,927
Other countries	2,530,694	2,612,826
	<u>34,528,236</u>	<u>36,907,812</u>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

15 Statements of earnings

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

	2007	2006
	\$	\$
Research and development*	499,559	730,493
Amortization of property, plant and equipment	774,176	648,521
Amortization of patents, trademarks and licenses	196,783	176,376
Interest income	(79,628)	(72,285)
Foreign exchange loss	270,394	105,133
 * Research and development expenses comprise:		
Salaries	486,023	437,865
Expenses	156,124	426,863
	<hr/>	<hr/>
	642,147	864,728
Less: Research and development tax credits	142,588	134,235
	<hr/>	<hr/>
	499,559	730,493
	<hr/>	<hr/>

16 Net earnings per share

	2007	2006
	\$	\$
Net earnings for the year	884,785	3,448,017
	<hr/>	<hr/>
Weighted average number of outstanding basic common shares	68,198,574	66,374,054
Dilutive effect of redeemable Class A shares	1,375,153	550,061
	<hr/>	<hr/>
Weighted average number of outstanding diluted common shares	69,573,727	66,924,115
	<hr/>	<hr/>
Basic earnings per share	0.013	0.052
Diluted earnings per share	0.013	0.052
	<hr/>	<hr/>

For the year ended October 31, 2007, the 1,622,500 stock options with an exercise price of \$1.13 are excluded from the diluted earnings per share calculation since they are anti-dilutive because the total of the exercise price and the future compensation exceeds the average stock price of the Company.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

17 Related party transactions

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

	2007 \$	2006 \$
Administrative fees	98,400	132,000

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.

- b) Amalgamation with the former parent companies

On October 11, 2006, Immunotec Research amalgamated with its parent companies 3223841 Canada Inc. and Roberts Evergreen Products (1996) Ltd. These parent companies each owned 50% of the shares issued by Immunotec Research, and each had insignificant operations, cash flows, assets and liabilities other than those arising from their investment in Immunotec Research.

Taking into account the reverse takeover and the concomitant 40:1 share consolidation (see note 2), the shareholders of the parent companies received a total of 66,924,115 common shares of the Company upon that amalgamation.

The assets acquired and liabilities assumed from the amalgamation of the parent companies with Immunotec Research are as follows:

	\$
Cash	5,214
Accrued liabilities	<u>(3,508)</u>
Net contributed surplus	<u>1,706</u>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

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 32.02% (2006 – 31.85%).

	2007	2006
	\$	\$
Expected expense computed at the Canadian combined federal and provincial statutory income tax rate	463,103	1,623,945
Adjustments to reflect the following:		
Income tax reduction for Canadian small corporations	-	(29,499)
Prior year's tax adjustments and assessments	(149,691)	71,923
Non-taxable research and development tax credits	14,327	(5,159)
Non-deductible items	21,196	17,404
Foreign tax rate difference	17,018	-
Stock-based compensation	235,800	-
Financing costs	(76,938)	-
Foreign exchange	(15,063)	-
Other	51,757	(28,361)
	<u>561,509</u>	<u>1,650,253</u>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

b) The future income taxes are as follows:

	2007 \$	2006 \$
Future income tax assets		
Non-deductible provisions	-	30,223
Financing costs	101,908	-
Retirement benefits	196,923	-
Tax losses carried forward	2,280,941	107,554
	<hr/>	<hr/>
Total future income tax assets	2,579,772	137,777
	<hr/>	<hr/>
Future income tax liabilities		
Property, plant and equipment	161,167	246,590
Patent, trademarks and licenses	83,095	-
Investment tax credit	145,487	14,223
	<hr/>	<hr/>
Total future income tax liabilities	389,749	260,813
	<hr/>	<hr/>
Net future income tax assets (liabilities)	2,190,023	(123,036)
	<hr/>	<hr/>
Classified as:		
Current assets	536,000	16,000
Long-term assets	1,654,023	107,554
Long-term liabilities	-	(246,590)
	<hr/>	<hr/>
	2,190,023	(123,036)
	<hr/>	<hr/>

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

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 operations in the following accounts:

	2007 \$	2006 \$
Decrease (increase) in		
Accounts receivable	15,012	203,732
Income taxes receivable	(13,448)	-
Inventories	588,597	(951,880)
Prepaid expenses	144,098	(184,910)
Increase (decrease) in		
Accounts payable and accrued liabilities	(28,559)	(234,486)
Customer deposits	238,196	(3,907)
Income taxes payable	(164,556)	183,733
	<u>779,340</u>	<u>(987,718)</u>

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

Property, plant and equipment included in accounts payable and accrued liabilities	52,409	32,166
Liabilities assumed upon amalgamation of Immunotec Research with its parent companies (note 17(b))	-	3,508

20 Contingencies

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 these legal proceedings 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.

Immunotec Inc.

Notes to Consolidated Financial Statements October 31, 2007 and 2006

21 Commitments

The Company has leases for equipment amounting to \$122,496 expiring in 2010. Minimum future payments under these operating leases are as follows:

	\$
2008	49,683
2009	44,323
2010	28,490

22 Financial instruments

Fair value

The Company has determined the fair value of its financial instruments based on estimates and assumptions. The actual results may differ from the estimated fair value, and the use of other assumptions or valuation methods may have a material effect on the estimates.

The fair value of current assets and liabilities is comparable to their carrying value due to the relatively short period to maturity.

The fair value of the investment in a private company (note 6) was not able to be reliably estimated as at October 31, 2007 for the reasons that this private bio-based technology company is in a development stage and its latest audited financial statements available are as at December 31, 2006. The company is committed to buy back, in May 2010, the shares owned by Immunotec at the higher of the fair value of the shares or US\$786,350. This investment is accounted for at cost (note 2), and as per management no impairment should be recorded as at October 31, 2007.

The fair value of the long-term liability was determined by calculating the present value of expected future cash flows. The fair value is comparable to its carrying value due to the relatively short period to maturity and to payment term.

Credit risk

Management believes that there was no significant credit risk as at October 31, 2007 and 2006 for its accounts receivable. The Company continually monitors its clients' credit and establishes its provision for doubtful accounts based on the credit risk applicable to each client.

Interest rate risk

Cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and long-term liability are non-interest bearing. The bank's credit facilities bear interest as described in note 9.

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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. As at October 31, 2007, the balances denominated in U.S. dollars are \$3,153,224 (2006 – \$925,669) for the cash and cash equivalents, \$419,067 (2006 – \$349,372) for the accounts receivable and \$863,540 (2006 – \$831,194) for the accounts payable and accrued liabilities.

23 Subsequent event

On November 5, 2007, the Company granted 700,000 options to its new president and chief executive officer under a management contract effective as at this date. Each option entitles the holder to acquire one common share of the Company at a price of \$0.66. The options are exercisable at a rate of one third per year, starting November 5, 2008 and will expire November 5, 2012. The estimated fair value of each option granted has been determined using the Black-Scholes option pricing model using the following assumptions: a risk-free interest rate of 4.24%, volatility of 100%, an expected dividend yield of nil and an expected life of five years. The weighted average fair value of these options has been estimated at \$0.5039 per unit.

