

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

*The following analysis must be read in conjunction with the unaudited interim consolidated financial statements of Immunotec Inc. (the "Company") for the quarter and the nine-month period ended July 31, 2007 compared with the quarter and the nine-month period ended July 31, 2006, the unaudited interim consolidated financial statements and management's discussion and analysis of the Company for the period ended January 31, 2007, which was the first reporting of the Company following the completion, of its reverse takeover transaction (the "RTO"); also, the reader should refer to the annual audited financial statements of Immunotec Research Limited (having merged with the Company on January 1, 2007) dated October 31, 2006 and the respective notes to financial statements. The reader of the financial statements should also read the Information Circular of the Company dated November 28, 2006 that was filed and can be examined on SEDAR ([www.sedar.com](http://www.sedar.com)).*

*This management's discussion and analysis 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 unaudited interim financial statements and management's report have been reviewed by the Company's auditors, 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 dietary supplements, food, vitamins, personal care products and natural health 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 out of 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, 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 July 31, 2007, the Company's product line was comprised of 16 different products which are distributed and sold by independent distributors through a network marketing system of over 13,000 active distributors in Canada and the United States and are sold internationally under exclusive distribution agreements.

During the three-month period ended July 31, 2007, the Company finalised the purchase price allocation, based on the estimated fair value of the assets acquired and liabilities assumed of Magistral under the reverse takeover. The new purchase price allocation takes into account the increase of the fair value of the research and development of tax credits receivable, the increase of the future income taxes asset and the reduction of the fair value of the patents, trademarks and license.

## 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:

#### ***HMS 90/Immunocal***

The Company's flagship product is called HMS 90 (Humanized Milk Serum, 90% Protein) in Canada and Immunocal in the United States and in other countries. HMS 90/Immunocal represented over 53% of the Company's sales for the quarter ended July 31, 2007.

#### ***Immunocal Platinum***

Launched in May 2006, Immunocal Platinum represented approximately 25% of the Company's sales for the quarter ended July 31, 2007. Immunocal Platinum is an enhanced form of HMS 90/Immunocal.

#### ***Other Products***

Other products sold include Cherry Concentrate, Prycena shake and Thermal Action tablets, Xtra Sharp energy tonics, Magistral for Men Only, PNT-200, Grass Valley Food Supplements, Naturally Sourced Calcium, Skin Perfecting Cream, Immunotec Toothpaste, training materials, publications, brochures and other sales aids. In addition, 2 new products were launched in May 2007, a new vitamin supplement and Omega-3 with turmeric supplement.

### **Distribution Strategy**

The Company distributes its products 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. As at July 31, 2007, demand for the Company's products is created from approximately 13,000 active distributors in the United States and Canada. 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.

### **Immunotec Research International**

Immunotec Research International, a division of the Company, provides the Company's products to exclusive distributors located in approximately 20 countries outside of Canada and the United States. In certain countries the products are distributed through direct selling and in others they are distributed through traditional retail sales channels.

### **Patents**

As at July 31, 2007, the Company has been issued 80 patents and has 12 patent applications pending with respect to Canada and the United States.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

### Summary and Analysis of Financial Operations

The following table summarizes selected financial information regarding the operations of the Company for the last seven quarters, which are taken from the unaudited financial statements of the Company and Immunotec Research Ltd.

	<b>Q3 July 31 2007 (\$)</b>	<b>Q2 April 30 2007 (\$)</b>	<b>Q1 January 31 2007 (\$)</b>	<b>Q4 October 31 2006 (\$)</b>	<b>Q3 July 31 2006 (\$)</b>	<b>Q2 April 30 2006 (\$)</b>	<b>Q1 January 31 2006 (\$)</b>
Net Sales	8,526,260	8,835,156	8,655,143	8,580,622	8,542,608	10,157,573	9,627,009
Cost of Sales	1,526,082	1,600,740	1,368,427	1,484,128	1,459,783	1,787,894	1,489,240
Sales Incentives	3,538,010	3,628,354	3,642,096	3,500,505	3,458,245	4,193,049	4,120,962
Selling, General and Administrative	2,760,170	2,958,419	2,894,961	2,683,841	2,308,923	2,609,701	2,713,269
Earnings before income taxes	701,998	647,643	749,659	921,148	1,315,657	1,566,927	1,303,538
Net Earnings	566,751	425,065	505,763	639,776	882,603	1,032,720	892,918
Net Earnings per share:							
Basic	0.008	0.006	0.008	0.010	0.013	0.015	0.013
Diluted	0.008	0.006	0.007	0.010	0.013	0.015	0.013
Weighted average number of common shares outstanding:							
Basic	69,994,300	69,994,300	62,869,951	64,850,922	66,924,115	66,924,115	66,924,115
Diluted	69,994,300	69,994,300	68,325,721	66,924,115	66,924,115	66,924,115	66,924,115
Cash Dividends Declared	-	-	-	441,300	-	1,592,470	-

	<b>As at July 31, 2007 Unaudited (\$)</b>	<b>As at April 30, 2007 Unaudited (\$)</b>	<b>As at January 31, 2007 Unaudited (\$)</b>	<b>As at October 31, 2006 Audited (\$)</b>
<b><u>ASSETS:</u></b>				
Current Assets	7,343,624	8,252,679	8,698,123	6,113,835
Other Assets	12,233,183	12,559,823	13,156,430	9,081,735
<b>TOTAL</b>	<b>19,576,807</b>	<b>20,812,502</b>	<b>21,854,553</b>	<b>15,195,570</b>
<b><u>LIABILITIES:</u></b>				
Current Liabilities	2,693,887	4,709,997	6,058,074	3,548,523
Long Term Liabilities	-	-	328,673	11,571,590
<b>TOTAL</b>	<b>2,693,887</b>	<b>4,709,997</b>	<b>6,386,747</b>	<b>15,120,113</b>
<b><u>SHAREHOLDERS' EQUITY:</u></b>				
Share Capital	3,465,548	3,465,548	3,465,548	1,700
Other Equity-Stock Options	521,336	307,672	98,038	-
Contributed surplus	11,326,406	11,326,406	11,326,406	1,706
Retained Earnings	1,569,630	1,002,879	577,814	72,051
<b>TOTAL</b>	<b>19,576,807</b>	<b>20,812,502</b>	<b>21,854,553</b>	<b>15,195,570</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY

### **Net sales**

For the nine-month period ended July 31, 2007, net sales were \$26,016,559 (\$8,526,260 for the quarter) compared to the previous year where they were at \$28,327,190 (\$8,542,608 for the quarter). The decrease in the Company's net sales mainly reflects a drop in volume during the nine month period in Canada of \$1,436,284, in the United States of \$798,454 and in other countries of \$75,893.

For the third quarter ended July 31, 2007, net sales were comparable to prior year. Both the Canadian and US markets resulted in an increase in net sales of \$105,481 and \$34,168, respectively, whereas sales to other countries decreased by \$155,997.

### **Cost of sales**

For the nine-month period ended July 31, 2007, cost of sales as a percentage of net sales was 17.3% (17.9% for the quarter), compared to 16.7% (17.1% for the quarter) for the corresponding periods of 2006. The increase in the cost of sales percentage to net sales, for the quarter and the nine-month period, resulted from the sales mix of products.

### **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 41.5% of net sales for the nine-month period ended July 31, 2007 (41.5% for the quarter), compared to 41.6% (40.5% for the quarter) of net sales for the corresponding period of 2006. For the quarter, the increase in sales incentives results from decreased sales in other countries in relation to sales in Canada and the United States, since sales incentives are assumed by the exclusive distributors in each country from their own product sales.

#### ***Selling, general and administrative***

Selling, general and administrative expenses consist of marketing and selling related expenses; research and development related expenses, including costs of clinical studies; administrative expenses, professional fees, patent and trademark, 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 and consultants, management profit sharing bonuses and other related employment expenses for all operating departments.

The selling, general and administrative expenses were \$8,613,550 for the nine-month period ended July 31, 2007 (\$2,760,170 for the quarter), compared to \$7,631,893 (\$2,308,923 for the quarter) for the corresponding period of 2006, representing an increase of 12.9% (19.5% for the quarter). The increase is largely attributable to expenses relating to the RTO completed by the Company, including the stock option compensation of \$521,336 (\$213,664 for the quarter), a non-cash expense.

### **Net earnings**

Net earnings were \$1,497,579 for the nine-month period ended July 31, 2007 (\$566,751 for the quarter), compared to \$2,808,241 (\$882,603 for the quarter) for the corresponding period of 2006. For the nine-month period compared to 2006, the decrease is largely attributable to the decline in net sales and additional costs related to the RTO completed by the Company which includes stock option compensation offset partly by the reversal of income tax provisions.

## **Financial situation and liquidity**

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

For the nine-month period ended July 31, 2007, the cash increase from operating activities was \$1,868,305 compared to \$1,941,878 in 2006. The slight decrease in cash flow generated by operations is mainly attributable to lower earnings, offset by the favourable impact of future income taxes and stock-based compensation.

For the third quarter, the cash increase from operating activities was \$638,790 compared to a decrease of \$359,010 in 2006. The increase in cash flow generated by operations is mainly attributable to lower earnings, offset by the application of future income tax benefit acquired from Magistral Biotech Inc. upon the reverse takeover transaction and also stock-based compensation.

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

The increase in investing activities for the nine-month period ended July 31, 2007, resulted in a decrease of cashflow of \$322,868 (\$189,521 for the quarter), compared to a decrease of cashflow of \$1,229,625 (\$378,484 for the quarter) for the corresponding period of 2006. The higher decrease in cash flow in 2006 resulted from the purchase of an exclusive license relating to one of its products.

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

For the nine-month period ended July 31, 2007, the Company had a decrease, related to financing activities, of \$841,300 (\$0 for the quarter), compared to a decrease of \$1,592,470 (\$0 for the quarter) for the corresponding periods of 2006. The decreases are the result of dividends paid of \$441,300 during the first quarter and the reimbursement of the secured convertible debenture of \$400,000 during the second quarter of the current financial year compared to dividends of \$1,592,470 paid in the corresponding period in 2006.

### ***Cash situation***

As at July 31, 2007, the Company had a cash position of \$2,185,972 compared to \$244,990 as at July 31, 2006. 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.

## **Trends**

### ***New Accounting policies***

New accounting policies relating to "*Financial instruments – Recognition and measurement, hedges and comprehensive income*" were adopted by the Company on November 1, 2006. These recommendations had no significant effect on the Company's financial statements.

### ***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 vesting period of the options.

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 in contributed surplus are credited to capital stock, when they are exercised.

### ***Working capital***

As at July 31, 2007, the Company shows a working capital of \$4,649,737 a ratio of 2.73 compared to a working capital of \$2,565,312 with a ratio of 1.72 as at October 31, 2006. This improvement is mainly attributable to the fact that the Company reinvests the majority of the funds generated by the operations and the fact that the Company did not declare dividends during the period.

### ***Financial Instruments***

The carrying value of cash, investments, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to their conditions, terms, rates and maturities.

### ***Credit risk***

The Company provides credit to its international licensees and customers in the normal course of its operations. Generally an advance deposit with the order is required and the balance is paid before the next shipment. The Company maintains provisions for contingent credit losses.

For the other debts, the Company assesses, on a continual basis, probable losses and sets up a provision for losses based on their estimated realizable value.

### ***Currency Risk***

The Company realizes approximately 50% of its net sales in US dollars and accordingly is exposed to market risks related to foreign exchange fluctuations. To reduce its currency risk exposure, the Company can use derivative financial instruments such as forward foreign exchange contracts. As at July 31, 2007, the Company did not have any contract of that nature.

Over the past three years, more than 50% of the Company's net sales have been generated outside of Canada and more than 65% of purchases are transacted in US dollars. Generally, the Company's financial results will be positively affected by a weakening Canadian dollar and negatively affected by a strengthening Canadian dollar.

### **Future Developments**

Immunotec benefits from a solid balance sheet, skilled and motivated employees, well established suppliers, repeat customers and a dedicated network of distributors. Management believes that the new measures and sales and marketing initiatives implemented to date will continue to have a positive effect on sales in Canada and United States:

- Hiring of three Regional Sales Directors. Two in the United States and one in Canada;
- Creating a Communications and Public Relations group;
- Hiring a new Marketing Director;
- Implementing changes in our Distributor training programs;
- Hiring Spanish speaking customer service agents, translation of our brochures and our web site in Spanish for our growing U.S. Spanish speaking market.

Management is of the opinion, that its investment in current research in such areas as cancer cachexia, prostate health, aging and aging related conditions will enable Immunotec to produce and bring to market more value added products which will continue to differentiate its products from competing products.

Immunotec, following recommendations from its Product Development Committee, is constantly developing new products that are appropriate for its health and wellness markets.

## 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.

#### a) **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.

#### b) **Issued**

The following table summarizes the changes in the Company's share capital issued between November 1, 2005 and July 31, 2007, taking into account the 40:1 share consolidation:

	<b>For the six month period ended July 31, 2007</b>		<b>For the year ended October 31, 2006</b>	
	<b>Number of shares</b>	<b>Amount \$ (unaudited)</b>	<b>Number of shares</b>	<b>Amount \$</b>
Common shares – Beginning of period	56,885,498	1,700	66,924,115 *	2,000
Plus:				
Termination of the right to redeem shares at the option of the holder (1)	10,038,617	300	-	-
Reverse takeover (2)	3,102,443	3,500,000	-	-
Less:				
Portion of shares redeemable at the option of the holder	-	-	(10,038,617)	(300)
Shares held by the Company for sale	(32,258)	(36,452)	-	-
Common shares – End of period	<u>69,994,300</u>	<u>3,465,548</u>	<u>56,885,498</u>	<u>1,700</u>

\* Represents the shares issued to the former shareholders of Immunotec Research Ltd. upon the reverse takeover.

### ***Escrow Shares***

In accordance with the policies of the Exchange, a portion of the Payment Shares to be received by the Vendors, aggregating 55,766,459 Common Shares (after giving effect to the Share Consolidation), have been placed in escrow as RTO Value Escrow Shares pursuant to the RTO Escrow Agreement. The RTO Value Escrow Shares have been or will be released as follows:

- 1/4 of the RTO Value Escrow Shares, on January 23, 2007 when the TSX Venture Exchange released its final Exchange bulletin;
- 1/4 of the RTO Value Escrow Shares, 6 months from the date of issuance of the Final Exchange Bulletin;
- 1/4 of the RTO Value Escrow Shares, 12 months from the date of issuance of the Final Exchange Bulletin;
- 1/4 of the RTO Value Escrow Shares, 18 months from the date of issuance of the Final Exchange Bulletin.

### ***Stock option plan***

Pursuant to the RTO approval at the special meeting of shareholders held on December 20, 2006, the Company amended the stock option plan adopted by Magistral Biotech Inc. (former name of the Company prior to the completion of the RTO) 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.

On December 20, 2006, the Company granted 1,630,000 options to its employees, directors and consultants, each unit entitling the holder to acquire one common share of the Company at a price of \$1.13 per share. The options are exercisable at a rate of 1/3 per year, starting December 20, 2007 and expiring December 20, 2011. The weighted-average fair value of these options has been estimated at \$0.8606 per unit. During the quarter, 7,500 options were forfeited due to an employee leaving the Company.

## **RISK FACTORS OF THE COMPANY**

### **Risks and Uncertainties**

The company's operating results and financial position could be adversely affected by each of the following risks:

#### ***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.

#### ***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.

### ***Government Regulation***

The Company is subject to direct regulation by domestic and foreign governmental agencies, particularly Health Canada and the 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 provincial, state and federal law, including requirements regarding customs, duties and 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 the government regulation could have an adverse effect on the business and financial condition of the Company.

### ***Product and Liability Insurance***

The Company 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 a sufficient amount of coverage to protect against losses due to liability. In addition, a product liability claim or recall could have a material adverse effect on the business.

## **LEGAL PROCEEDINGS OF THE COMPANY**

There are no outstanding legal proceedings material to the Company to which the Company is subject, and, to the knowledge of the Company, none are contemplated.

## **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.

## **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 annual filings are properly recorded, processed, summarized and reported to its Audit Committee and the Board of Directors.

### **Internal controls over financial reporting**

During Q3 2007, the Company evaluated the design of internal control over financial reporting in accordance with the guidelines of MI 52-109. This evaluation allowed the CEO and CFO to conclude that internal controls over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

In addition, this work allowed determining that, during the quarter ended July 31, 2007, no change to internal controls over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such controls.

### **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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