

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

*The following analysis must be read in conjunction with the unaudited interim financial statements of Immunotec Inc. (the "Company") dated July 31, 2009 and the annual audited consolidated financial statements dated October 31, 2008.*

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

**OVERVIEW**

The Company is incorporated under the *Canada Business Corporations Act* and is engaged primarily in the development and marketing of natural health products, dietary supplements, food, vitamins and personal care products, some of which are manufactured on its behalf by third parties. The products are distributed through a network marketing system in Canada, the United States and most recently in the Republic of Ireland and the United Kingdom where operations began in June 2009. In July 2009, the Company terminated the operations in South Korea of its wholly owned subsidiary, Immunotec (Korea) Inc. The Company's products are sold in other countries under exclusive distributorship agreements.

The Company operates out of a 37,000 square foot facility located in Vaudreuil-Dorion, Quebec, Canada, has a manufacturing facility in Blainville, Quebec, Canada, a distribution centre located in Swanton, Vermont, USA and a service office in Dublin, Ireland.

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, 2009, the Company's product line was comprised of 15 different products which are distributed and sold by independent distributors through a network marketing system of over 20,000 active distributors in Canada, the United States and in the Republic of Ireland and the United Kingdom. An active distributor is defined as a distributor who has purchased the Company's products within the last twelve months.

## HIGHLIGHTS

### NET EARNINGS (LOSS)

The Company incurred a net loss for the third quarter ended July 31, 2009 of \$2,528,203 or (\$0.036) per share, compared to net earnings in the third quarter of 2008 of \$354,168 or \$0.005 per share.

For the nine-month period ended July 31, 2009 the Company recorded a net loss of \$3,346,944 or (\$0.048) per share, compared to net earnings of 1,099,278 or \$0.016 per share.

On July 31, 2009 the Company announced the closing of its subsidiary, Immunotec (Korea) Inc., located in Seoul, South Korea. The closure is the direct result of litigation with a former sub-distributor which obtained from the Seoul Central District Court the issuance of an “Executory Preliminary Injunction” on July 13, 2009 against Immunotec (Korea) Inc. to cease selling Immunocal products in Korea. A charge of \$1,424,458 representing the costs associated with the termination of the operations has been recorded in the third quarter. In addition, Immunotec (Korea) Inc. incurred a net loss of \$882,277 from its operations from the date of opening the business on March 20, 2009 to the closing of the business on July 31, 2009.

The largest component of the third quarter loss and the nine-month period loss is attributable to the closure of the South Korea subsidiary.

Other items impacting the net loss in the third quarter related to:

- The compensation plan for distributors which was introduced on February 1, 2009 has continued to pay at a rate which is greater than expected due to the number of distributors advancing to higher levels in the plan. In the third quarter the variance is \$223,621.
- New entry packs sold at a greater discount designed to increase the number of new distributors in Canada and the United States, decreased margin by \$167,940.
- Selling, administrative and promotional expenses of \$258,664 were incurred in the third quarter relating to the start-up costs of the Company’s Irish subsidiary which started its sales operation in the third quarter.
- In the third quarter 2009, sales support expenses of \$347,227 were incurred to support the growth of the Company’s distributors in Canada and the United States. This amount was \$293,544 higher than previous year.

### NET SALES

The Company, for the third quarter ended July 31, 2009, realized net sales of \$11,967,395 compared to \$8,942,007 in 2008, an increase of \$3,025,388 or 33.8%. Net sales in Canada posted an increase of \$276,797 or 6.3%, in the United States, an increase of \$989,557 or 27.7% and an increase of \$146,667 or 15.5% in our export market to other countries. The commencement of operations in the Republic of Ireland and United Kingdom under the seamless network marketing model in June 2009 resulted in net sales of \$39,504 while in South Korea, net sales were reported at \$1,572,863.

For the third quarter, net sales by final destination were as follows: 39.3% in Canada, 38.1% in the United States, 13.1% in South Korea, 0.4% in the United Kingdom and the Republic of Ireland with the remainder 9.1%, through export to other international markets.

## FORWARD LOOKING STATEMENTS

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

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

## DESCRIPTION OF THE BUSINESS

### **Principal Products and Services**

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

#### ***Immunocal®***

The Company's unique flagship product, Immunocal, is based on solid and ongoing research as well as documented efficacy in maintaining a strong immune system. This product represents over 42% of the Company's sales for the quarter ended July 31, 2009. Immunocal (NPN: 80004370) is recognized by Health Canada's Natural Product Directorate as a 'natural source of the glutathione precursor cysteine for the maintenance of a strong immune system'.

#### ***Immunocal Platinum®***

Immunocal Platinum is an enhanced form of Immunocal, targeted at the 50+ market, to support good health and well-being, buffer the effects of aging as well as for the maintenance of a strong immune system. Immunocal Platinum represented approximately 28% of the Company's sales for the quarter ended July 31, 2009.

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

Other products sold include Concentrated Tart Montmorency Cherry Juice, Xtra Sharp®, Magistral®, PNT-200®, Naturally Sourced Calcium, Vitamin/Mineral Supplement, Omega-3, Skin Perfecting Cream, Thermal Action, Toothpaste and the Immunotec F.I.T.T.™ Meal Replacement system.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

	For the three-month period ended July 31,		For the nine-month period ended July 31,	
	2009	2008	2009	2008
	(\$) unaudited	(\$) unaudited	(\$) unaudited	(\$) unaudited
Net Sales	11,967,395	8,942,007	34,762,679	26,766,768
Cost of Sales	2,370,257	1,573,609	6,682,627	4,940,520
Sales Incentives	5,644,625	3,697,379	16,103,001	10,971,475
Selling, General and Administrative	5,052,710	3,173,318	14,057,525	9,099,446
Costs of closing operations in South Korea	1,424,458	-	1,424,458	-
(Loss) Earnings before income taxes	(2,524,655)	497,701	(3,504,932)	1,755,327
Net (Loss) Earnings	(2,528,203)	354,168	(3,346,944)	1,099,278
Net (Loss) Earnings per share:				
Basic	(0.036)	0.005	(0.048)	0.016
Diluted	(0.036)	0.005	(0.048)	0.016
Weighted average number of common shares outstanding:				
Basic	69,994,300	69,994,300	69,994,300	69,994,300
Diluted	69,994,300	69,994,805	69,994,300	70,055,040

	As at July 31, 2009 (\$) unaudited	As at April 30, 2009 (\$) unaudited	As at October 31, 2008 (\$) audited
<b>ASSETS:</b>			
Cash and cash equivalents	1,749,168	2,463,783	6,138,454
Restricted cash	970,197	760,770	-
Accounts receivable	638,372	1,129,416	812,914
Other current Assets	6,928,497	7,137,186	4,683,255
Total current Assets	<u>10,286,234</u>	<u>11,491,155</u>	<u>11,634,623</u>
Other Assets	11,245,744	11,119,943	11,028,777
<b>TOTAL ASSETS</b>	<b><u>21,531,978</u></b>	<b><u>22,611,098</u></b>	<b><u>22,663,400</u></b>
<b>LIABILITIES:</b>			
Current Liabilities	6,484,744	5,119,813	4,552,187
<b>TOTAL LIABILITIES</b>	<b><u>6,484,744</u></b>	<b><u>5,119,813</u></b>	<b><u>4,552,187</u></b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share Capital	3,465,548	3,465,548	3,465,548
Other Equity-Stock Options	1,692,197	1,608,045	1,414,885
Contributed surplus	11,337,796	11,337,796	11,332,143
Retained Earnings	(1,448,307)	1,079,896	1,898,637
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>15,047,234</u></b>	<b><u>17,491,285</u></b>	<b><u>18,111,213</u></b>

## Summary of the last eight quarters of operations

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

	Q3 July 31, 2009 (\$)	Q2 April 30, 2009 (\$)	Q1 January 31, 2009 (\$)	Q4 October 31, 2008 (\$)	Q3 July 31, 2008 (\$)	Q2 April 30, 2008 (\$)	Q1 January 31, 2008 (\$)	Q4 October 31, 2007 (\$)
Net Sales	11,967,395	12,691,686	10,103,598	9,254,877	8,942,007	9,180,346	8,644,415	8,511,677
Cost of Sales	2,370,257	2,538,842	1,773,528	1,582,155	1,573,609	1,727,304	1,639,607	1,717,865
Sales Incentives	5,644,625	5,968,448	4,489,928	3,762,677	3,697,379	3,731,886	3,542,210	3,548,533
Selling, General and Administrative	5,052,710	4,926,043	4,078,772	4,063,566	3,173,318	3,028,620	2,897,508	3,898,285
Costs of closing operations in South Korea	1,424,458	-	-	-	-	-	-	-
(Loss) Earnings before income taxes	(2,524,655)	(741,647)	(238,630)	(153,521)	497,701	692,536	565,090	(653,006)
Net (Loss) Earnings	(2,528,203)	(617,536)	(201,205)	(157,477)	354,168	434,049	311,061	(612,794)
Net (Loss)Earnings per share:								
Basic	(0.036)	(0.009)	(0.003)	(0.002)	0.005	0.006	0.004	(0.009)
Diluted	(0.036)	(0.009)	(0.003)	(0.002)	0.005	0.006	0.004	(0.009)
Weighted average number of common shares outstanding:								
Basic	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300
Diluted	69,994,300	69,994,300	69,994,300	70,034,549	69,994,805	69,994,300	69,994,300	69,994,300

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY

The following analysis of the financial situation and the results of operations of the Company should be read in conjunction with the information presented in its interim unaudited consolidated financial statements and their related notes for the nine-month periods ended July 31, 2009 and 2008.

### Net sales

The Company, for the third quarter ended July 31, 2009, realized net sales of \$11,967,395 compared to \$8,942,007 in 2008, an increase of \$3,025,388 or 33.8%. Net sales in Canada posted an increase of \$276,797 or 6.3%, in the United States an increase of \$989,557 or 27.7% and an increase of \$146,667 or 15.5% in our export market to other countries. The commencement of operations in the Republic of Ireland and United Kingdom under the seamless network marketing model in June 2009 resulted in net sales of \$39,504, while in South Korea, net sales were reported at \$1,572,863.

For the nine-month period ended July 31, 2009, net sales were \$34,762,679 compared to \$26,766,768 for the same period in 2008, an increase of \$7,995,911 or 29.9%. The commencement of operations in the Republic of Ireland and United Kingdom under the seamless network marketing model in June 2009 resulted in net sales of \$39,504 and in South Korea net sales were reported at \$2,642,944. Other markets also reported increases in volume: in Canada \$1,574,433 or 11.6%, in the United States \$3,580,735 or 33.9% and export sales \$158,295 or 6.0%.

In US dollars, network sales in the United States for the quarter ended July 31, 2009 were \$3,872,549 compared to \$3,463,360 in 2008, an increase of \$409,188 or 11.8% and for the nine-month period ended July 31, 2009, network sales in the United States were \$11,417,859 compared to \$10,193,222 in 2008, an increase of \$1,224,637 or 12.0%.

### **Cost of sales**

For the nine-month period ended July 31, 2009, cost of sales as a percentage of net sales was 19.2% (19.8% for the quarter), compared to 18.5% (17.6% for the quarter) for the corresponding periods of 2008. The increase of 2.2% in the cost of sales for the quarter compared to last year results mainly from the introduction and sales at a greater discount of new entry product packs designed to increase the number of new distributors registering with the Company in Canada and the United States.

### **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 46.3% of net sales for the nine-month period ended July 31, 2009 (47.2% for the quarter), compared to 41.0% (41.3% for the quarter) of net sales for the corresponding periods of 2008. This increase in sales incentives resulted from the introduction of the new compensation plan in February 2009. Higher sales incentives were paid to the independent distributors due to transitional expenses associated with the grandfathering status offered for a limited period of time and bridging certain key distributors to guarantee their income during the transition. In addition, incentives related to achieving higher status in the new compensation plan were higher than projected in all of the Company's markets.

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

The selling, general and administrative expenses were \$14,057,525 for the nine-month period ended July 31, 2009 (\$5,052,710 for the quarter), compared to \$9,099,446 (\$3,173,318 for the quarter) for the corresponding periods of 2008. The increase of \$4,958,079 for the nine-month period is largely attributable to:

- Selling, general and administrative costs in operating the Korean business prior to shut down amounted to \$1,238,066;
- The increase in salaries and related expenses of \$1,452,583 resulting from the hiring of new personnel in the sales, marketing, purchasing, customer service and executive areas;
- The timing of the spring incentive trip and the introduction of regional meetings of \$489,286, as well as \$678,298 incurred for higher sales support expenses in the United States;
- \$681,819 for special programs and printed material to support the introduction of the new compensation plan;
- The increase costs in credit card fees and shipping and packaging costs of \$334,858, resulting from the increase in sales;

- The launch of the United Kingdom and the Republic of Ireland operations in May 2009 resulted in operational expenses of \$211,080 for the third quarter 2009, which mainly included selling, marketing and executive expenses.

Other operating expenses such as bank fees, foreign exchange and a reduction in interest income contributed to the unfavourable variation.

### **Income taxes**

For the nine-month period ended July 31, 2009 the Company recorded an income tax recovery of \$157,988 (income tax expense of \$3,548 for the quarter) compared to an income tax expense of \$656,049 (\$143,533 for the quarter) for the comparable period in 2008.

### **Net (loss) earnings**

Net loss was \$3,346,944, or (\$0.048) per share, for the nine-month period ended July 31, 2009 and a net loss of \$2,528,203, or (\$0.036) per share, for the quarter, compared to net earnings of \$1,099,278, or \$0.016 per share, for the nine-month period ended July 31, 2008 and net earnings of \$354,168, or \$0.005 per share, for the corresponding quarter in 2008.

### **Financial situation and liquidity**

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

The cash decrease from operating activities was (\$2,870,431) for the nine-month period ended July 31, 2009 (\$502,107 for the quarter), compared to a cash increase of \$3,485,974 (\$1,240,077 for the quarter) for the corresponding periods of 2008. The net loss and the higher receivables, inventory levels and prepaid expenses relating to the opening of the South Korea subsidiary have negatively impacted the cash flow generated from operating activities.

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

The increase in investing activities for the nine-month period ended July 31, 2009 resulted in a decrease of cash flow of \$548,658 (\$3,081 for the quarter), compared to a decrease of cash flow of \$481,393 (\$224,146 for the quarter) for the corresponding periods of 2008. The higher decrease in net cash flow in 2009 resulted mainly from additions to property, plant and equipment and intangible assets, offset by the disposal of property, plant and equipment which related to the sale of a house the Company owned and rented to an executive who was transferred from Europe.

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

For the three and nine-month periods ended July 31, 2009 and the corresponding period of 2008, the Company had no utilization of cash related to financing activities.

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

As at July 31, 2009, the Company had cash, cash equivalents and restricted cash of \$2,719,365 compared to \$6,879,139 as at July 31, 2008. The Company believes that cash requirements in the ordinary course of business and for the expansion of its business in international markets for next year can be met with its available cash and cash generated from its operating activities. If required, the Company has access to operating credit facilities of \$2,000,000 at its bank's prime rate plus 1%. The credit facilities have not been drawn upon to date.

### ***Working capital***

As at July 31, 2009, the Company shows a working capital of \$3,801,490 for a ratio of 1.58 compared to a working capital of \$6,749,628 with a ratio of 2.40 as at July 31, 2008.

### ***Capital management***

In the context of managing its capital, the objective of the Company is to maintain a capital structure that allows multiple options to finance its development and growth along with providing the shareholders with an acceptable return. The cash, cash equivalents, restricted cash and shareholders' equity define the capital structure of the Company.

The Company's strategy consists of maintaining a flexible capital structure in order to respond to the economic conditions and adjust accordingly. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issue, share repurchase, grant of stock options, payment of dividends, issue of debt or 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 remains unchanged during the period ended July 31, 2009.

## **DEVELOPMENT IN ACCOUNTING STANDARDS**

### **Changes to accounting policies**

On November 1, 2008, the Company adopted the new recommendation of Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The recommendation had no effect on the Company's consolidated financial statements.

### **Future accounting policies**

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

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

currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

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

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

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

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

## **FINANCIAL INSTRUMENTS**

### **Classification of the financial instruments**

Cash, cash equivalents and restricted cash 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 were initially recorded at their fair value and subsequent 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 and customer deposits are classified as “other financial liabilities”. Subsequent to their measurement at fair value, these financial liabilities are measured at amortized cost using the effective interest rate method.

## **Fair value**

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

The fair value of current financial assets and liabilities, which include cash, cash equivalents, restricted cash, 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 July 31, 2009 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.

## **Credit risk**

Financial instruments which potentially subject the Company to credit risk include cash, cash equivalents, restricted cash and accounts receivable, with respect to which management believes there was no significant concentration of credit risk as at July 31, 2009. 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, cash equivalents and restricted cash 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 U.S. dollars. These risks are partially offset by purchases and operating expenses incurred in U.S. dollars. New subsidiaries in South Korea and the Republic of Ireland with operations in United Kingdom process transactions in different currencies. These subsidiaries bear the currency exchange risk. Accordingly, exchange rate fluctuations do not directly affect the Company's results of operations. However, exchange rate fluctuations in this market may affect the ability of the Company's subsidiary to conduct its business operations profitably.

As at July 31, 2009, the balances denominated in U.S. dollars were: for cash \$1,083,040 (2008 - \$1,666,048); for accounts receivable \$409,980 (2008 - \$248,956) and for accounts payable and accrued liabilities \$1,803,708 (2008 - \$1,513,782).

As at July 31, 2009, the balances denominated in Korean won were: for cash 15,671,701 (2008 - nil); for restricted cash 1,100,000,000 (2008 - nil); for accounts receivable 2,076,791 (2008 - nil) and for accounts payable and accrued liabilities 1,147,602,177 (2008 - nil).

For the above-mentioned countries, as at July 31, 2009, a variation of 10% in the exchange rate compared to the actual period-end exchange rates for each category of financial instruments held in different currency would have an impact on the balance sheet and net earnings of \$26,371.

## LEGAL PROCEEDINGS OF THE COMPANY

The Company, in the normal course of business is currently involved in two legal proceedings, one in Canada and the other in Korea. In Korea, a former sub-distributor obtained from the Seoul Central District Court an Executory Preliminary Injunction on July 13, 2009 against Immunotec (Korea) Inc. to cease selling Immunocal products in Korea as the Court concluded that Immunotec (Korea) Inc. was infringing on the former sub-distributor's exclusive distribution rights for these products. Negotiations with the former sub-distributor were initiated by the Company to obtain the withdrawal of the Injunction but failed, resulting in the decision to close the business. The Company has instructed the law firm representing the Company to file an appeal of the decision as well as to consider filing a claim for damages against the former sub-distributor for misrepresentations of facts on which the Injunction is based. A provision of \$1,424,458 for the costs associated with the termination of the operations in South Korea was recorded in the third quarter. In the opinion of management, the legal proceeding in Canada will not have a material effect on the Company's financial condition.

## FUTURE DEVELOPMENTS

The Company has for many years exported products internationally under exclusive distribution agreements based on geographic territories. Going forward, the Company has made a strategic decision to expand internationally using the same seamless network marketing model successfully employed in North America. To that end, Immunotec has formed a wholly owned subsidiary, Immunotec International Healthcare Products Limited, located in Dublin, Ireland. This subsidiary has begun the process of building a network of independent distributors in the Republic of Ireland and the United Kingdom in May 2009.

The Company's new compensation plan intrinsically reinforces key recruiting and leadership development initiatives, however the component which incents leadership development has proven to be too costly, and as a result, the Company will be implementing changes to that component of the plan taking effect on October 1, 2009. Once this change has been implemented, the Company will begin scaling back on promotional expenses.

Although gratified with the sales performance in the first nine months of the year the Company has incurred losses. Much of these losses were either one time or transitional associated with the implementation of our growth strategies. It is the Company's expectation that the growth in the distributors' network and in new leaders will yield long term growth and benefits, growing the revenue of the Company in the coming quarters and better leveraging the investments we have made in human capital and infrastructure to improve our bottom line results.

In support of this more rapid expansion plan, the Company has expanded its manufacturing capability at its production facility in Blainville, Quebec, adding packaging capability for its flagship product, Immunocal, resulting in a reduction in packaging costs.

In September 2009, the Company introduced a new product "Immunotec<sup>®</sup> Probiotic" which promotes a natural healthy intestinal environment for optimal digestion and serves to enhance mineral absorption and helps with urinary tract health. Continued product development is on-going, based on recommendations from Immunotec's Product Development Committee, allowing the Company to increase its product lines within the immune segment of the health and wellness market.

On July 7, 2009, the Company received Natural Health Products Directorate (NHPD)/Health Canada authorization to begin a study on the effect of the cysteine-rich whey protein isolate (Immunocal) in combination with physical exercise on muscle function, body composition and inflammatory cytokine levels in elderly persons: a randomized, double-blind study. This study will be conducted at the Clinical Research Institute of Montreal (IRCM) a research center in the province of Quebec with an excellent reputation in Canada and internationally.

On August 1, 2009, the Company announced an independent clinical research initiative at Beaumont Hospital's community clinical oncology program (CCOP), the goal of the study being the determination of the effect of cysteine-rich whey protein supplement in preventing additional weight loss in patients with stage IV (advanced) non-small cell lung cancer. Management is of the opinion that its investment in current research in such areas as cancer cachexia, aging and aging-related conditions will enable Immunotec to produce and bring to market more value-added products, thereby continuing to differentiate its products from competing products.

## 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**

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

### *Stock option plan*

As at July 31, 2009, the Company had 2,762,500 options outstanding. Each option entitles the holder to acquire one common share of the Company at the following exercise price; 1,582,500 options at \$1.13, 700,000 at \$0.66; 30,000 at \$0.80, 300,000 options at \$0.56 and 150,000 options at \$0.45.

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

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

### **Disclosure controls and procedures**

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

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

As the Company is an Issuer on the TSX Venture Exchange, the CEO and the CFO are no longer required to certify that they have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting.

Instead, the Company files a Certification of Interim Filings – Venture Issuer Basic Certificate which certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the interim filings.

### **Additional Information**

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

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